Nation's Business

A LOOK AHEAD

MARCH 1956

$600,000,000,000: That's construction's 10 year outlook

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Built-in wage boosts point to rising pay

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Politicians jeopardize social security PAGE 29

This man shapes your tax bill PAGE 34

These fund raising tips pay off PAGE 36

Study shows how managers are made PAGE 90

More People for a Growing Business

Bell telephone companies offer good opportunities for capable men and women

There's a great deal of wonderful equipment connected with your telephone. But it takes people to bring it into being and make it work. And there have been big increases in the number of telephone people—especially in the last few years.

Despite the large increases in the use of dial, there are today 234,000 operators in the Bell System. This is about double the number that were required before the war. And in many places Bell telephone companies need more people right now!

All in all, there are more than 740,000 men and women employed by the Bell System—an increase of 265,000 in the last ten years.

This is the largest number in history and shows that "people are the greatest invention yet" in the telephone business.

BELL TELEPHONE SYSTEM

Nation's Business

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MANAGEMENT'S washington letter

▶TAX CUTS MAY BE ASKED by Administration soon--to be effective July 1.

That's based on prediction that government receipts will be higher than Budget Bureau estimates.

Outlook now is that receipts may be as much as $1,500,000,000 higher than budget's $64,500,000,000 estimate for current fiscal year.

Informed guess is that fiscal 1957's expected $66,300,000,000 may be as much as $3,000,000,000 higher.

Therefore Administration--to get jump on Congress--might ask for July 1 tax cut.

▶CONGRESS CAN VOTE $2,500,000,000 tax cut by raising personal exemptions from $600 to $700.

But don't count on any large purchases with what you'll save.

For the lowest bracket (20 per cent) there'd be an extra 38½ cents a week in the pay envelope of a single person.

For a single person in the top bracket (earning more than $200,000 taxable income) there'd be an extra $1.74½ a week.

▶ANTICIPATED SPENDING for fiscal 1957 ($65,900,000,000) is equal to all U.S. government spending from the beginning (fiscal 1789) through most of fiscal 1920--a total of 132 years.

At fiscal '57 rate it would take only 34 minutes and five seconds to spend what U.S. government spent ($4,269,000) in 1789 through 1791.

▶HIGHER MINIMUM WAGE--$1 an hour--goes into force first of this month.

It'll mean raises averaging 13 cents an hour for about 2,100,000 of the 24,000,000 workers covered by federal wage-hour regulations. That's a direct $500,000,000 payroll boost.

Learners can be paid less, for limited time, where authorized.

Note: To enforce higher minimum, Wage-Hour Division of Labor Dept. is opening 25 new field offices, hiring 300 new payroll inspectors.

▶SENATE WELFARE FUND REPORT will be out this month.

Report will lay groundwork for bill giving U.S. far-reaching power to scrutinize financial affairs of employe benefit programs. Both unions and management will be criticized for way plans have been managed.

Funds are big operation, with $26,000,000,000 now in reserves and contributions running $8,000,000,000 a year.

Forecast: Senate bill will get serious consideration, probably will pass.

▶SELLING IS KEY to outlook for economy in rest of '56.

Leading economists see '56 as a good year, on whole, but many emphasize that business faces a hard selling job.

Why?

Many consumers may delay major purchases until after the elections; others are saving, going easy after 1955's big buying spree; some markets were all but saturated in the boom year ended last Dec. 31.

Best advice is to reappraise your market carefully, tap sales sources you may have passed over in last year's rush, tempt out buyers with new products, services.

Summing up, 1956 should be a strong year for business.

▶HOW FIRM IS business confidence?

Research Institute of America, Inc., sought answer in survey of 1,500 key businesses.

Results show:

79 per cent of firms polled expect continued increase in their volume over next five years.

26 per cent look for increase in profits over same period. Some think profits will be harder to show in coming five years because of increasing pressures from growth of unions and business mergers.

Any gloom talk?

Very little. Less than one per cent believe 1929-style crash is likely, only 13 per cent of firms surveyed see possibility of serious recession.

65 per cent expect ups and downs, but nothing big enough to halt general upward trend of U.S. economy.

21 per cent see no trouble of any kind in prospect.

▶UNIONS ARE CONFIDENT '56 wage increases will be as large as those in '55.

AFL-CIO Research Department, noting

over employe stock purchase plan. Labor Board and lower court say you must.

Whether you must open your records to union when you claim inability to pay wage increase it demands. Labor Board says yes, lower court says no.

Whether you must allow outside union officials admission to plant parking lot to pass out organizing leaflets. Labor Board says you must; lower courts disagree.

▶CLASSROOM CONSTRUCTION is going ahead 10 per cent this year--without federal aid.

State reports to U.S. Office of Education estimate 66,300 classrooms will be finished during current school year.

Last year's number: 60,000.

Survey also indicates overcrowding has been reduced about 10 per cent for nation as a whole.

There are 73,000 more teachers than last year--6.9 per cent rise, while number of pupils increased 3.5 per cent.

That reduces number of pupils per teacher from 27.7 to 26.8.

▶AUTO SAFETY STUDY shows proprietors, managers of wholesale business are safest drivers.

Survey from auto insurance data reveals other good drivers include:

Farm managers, foremen, supervisors, people in finance, retired persons.

Teachers and law officers also are high on list.

Consolation for groups that are below top of list: Insurance agents rank forty-ninth.

▶HOW WILL LEAP YEAR affect marriages?

Not much, say population analysts, who foresee little change in annual marriage rate until 1960.

Upsurge will begin then as large numbers of war babies and postwar babies reach marriageable age.

Marriage rate of 9.3 per 1,000 population last year was up from 9.2 year before.

So a few more than last year's 1,532,000 marriages may take place this year (compared to 1,488,000 in 1954 and 1,545,000 in 1953).

Increase for new year: about 3 per cent.

▶PEOPLE WHO REACH MIDLIFE today have better chance of growing old than grandpa and grandma had.

Trend reflects revolutionary advances in treatment of infectious diseases.

Example 1: Death rate from pneumonia and influenza among women 45 to 54 plunged 90 per cent in 15 years. Decrease for men was slightly less.

Example 2: Tuberculosis death rate among women ranges as much as 70 per cent lower. Rate for men declined about half as much. TB problem is becoming more concentrated among older men.

Death from cardiovascular-renal diseases is 30 per cent lower among women. Decrease for older men (65 to 74) is 16 per cent, 5 per cent for men 55 to 64. Among men 45 to 54 a slight increase is shown.

▶BIG TAX ISSUE coming up in Internal Revenue Service:

Whether income earned by $1,000,000,000 in funds accumulating for supplemental unemployment pay under automobile-type plans is tax exempt. Pension funds are.

Also: Whether laid-off employe must pay income tax on SUP benefit when he receives it. He does not pay tax on unemployment benefit itself.

At stake: Millions which funds might have to pay in taxes if the probable $30,000,000 potential earnings of funds are taxable. Also: income tax payments for unemployed.

▶BRIEFS: Grocery Manufacturers of America, Inc., expects nation's annual food bill to reach $100,000,000,000 by 1966, a $30,000,000,000 increase over present level....Survey of 100 leading company presidents shows 56 per cent came up from sales or sales-manufacturing....Your plant fireproof? New National Safety Council manual tells what industrial fire hazards are, how to combat them....American Automobile Association says cleanup of highway litter costs U.S. $30,000,000 a year.... Good news: free world supply, production of gold far exceeds that of the Soviet bloc....Americans now spending $32,000,000,000 in the leisure market; expected annual expenditure by 1960: $37,000,000,000.

that biggest wage boosts came in latter half of past year, say unions which settled for less in first half will drive hard now to catch up.

High level of business operations, profits, increased productivity form basis for labor's optimism on wages.

Note: Unions admit lack of success in industries and areas which did not share in '55's general economic climb. Four per cent of settlements gave no increase last year; 10 per cent gave none in '54; 7 per cent gave none in '53 and '52.

▶YOU'LL HEAR TALK SOON about higher taxes farmers will pay this year on real estate, personal property.

You'll want to know facts:

Taxes paid by farmers on real estate last year: $905,000,000. Estimated this year: $950,000,000.

Taxes paid on farm personal property totaled $224,000,000. Bill will come to estimated $235,000,000 this year.

Each category will be up about 5 per cent.

But rates didn't change. Assets did. Farmers have more.

Real estate: Land value rose about 5 per cent for the year--equaling 1952's highest value ever.

Livestock: For the year farmers have 646,000 more cattle, 4,421,000 more swine. Sheep numbers dropped 0.1 per cent, lambs are 0.9 per cent lower.

Machinery: Farmers have 150,000 more tractors, 50,000 more cars, 100,000 more trucks, 10,000 more grain combines, 20,000 more corn pickers; farms with milking machines increased 10,000.

Therefore: Real estate taxes paid on typical 160 acre hog-dairy farm in corn belt: $376 in '55; $391 estimated '56. Personal property tax same farm: $116 in '55; $122 estimated '56.

▶NEEDED: NEW DEFINITION for farm parity.

Government concept of what's fair price for farmers is based on 1909-14 prices--has been since World War I.

Two glaring defects:

Base period was time of exceptionally high relative farm prices.

Sweeping changes invalidate comparison of 1909-14 with today's conditions. Revolutionary technological changes in farming are upgrading farm productivity.

Example: Farms in 1910 had 24,200,000 horses and mules, 1,000 tractors.

Today's farms have about 4,551,000 horses and mules, 4,900,000 tractors.

▶HERE'S LATE, exclusive word on what farmers are doing with their money.

Check by American Collectors Association, Inc., shows:

Farmers are cutting back installment purchases, shopping for used, instead of new, machinery, taking other steps to live within their means.

▶ELECTRONIC BRAINS will permit big savings in 1960 census, make results available faster for use by business.

Census Bureau officials, already planning for 1960, contemplate purchases of large quantities of electronic data-processing machines to speed, simplify their job.

Bureau now has two UNIVACs--rents time on another--says their use enabled workers to complete first phase of current Census of Business five months ahead of schedule.

1950 census cost U.S. $100,000,000, showed population of 150,697,361. Cost of 1960 census hasn't yet been estimated, but use of electronic machines is expected to reduce sharply expense of tabulating results submitted by census takers.

Bureau says it will need more census takers, however, because there will be more people to count (expected number: 177,000,000).

Note: U.S. population at present is about 167,000,000.

▶WORKERS WHO STRIKE are losing less time from job than before.

Except for four wartime years, last year's average of 10.2 days' work lost by each striker was lowest on BLS records dating back to 1927. (Strikers that year were out average of 79.5 days each.)

Other low averages were 10.3 days in '51; 11 in '45; 11.8 in '53. Worst postwar year: 1946, with 25.2-day average.

▶MANAGEMENT RIGHTS in employer-employe relations are being tested in Supreme Court. Three issues involve:

Whether you must bargain with union

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WESTERN UNION=

WHEN IT MEANS BUSINESS . . . IT'S WISE TO WIRE

Businessmen say ▼ ▼ ▼ ▼ ▼

Why youth earns more

I disagree with a statement in the Washington Letter in your February issue. The answer to the question why younger men earn more than older men is at most only true in small part.

There are two major reasons for this situation. One is the shortage of help so that the employer has to bid more to get people. The second is that the employer does not proportionately increase the pay of the older employes. In fact, that also is somewhat influenced by the fantasy that men over 40 are on the way to the cemetery.

Management makes use of experience and maturity of judgment but too widely fails to recognize those important qualities.

EVERETT R. SMITH,
Director of Research,
MacFadden Publications, Inc.,
New York, N.Y.

Shortage does spark high bidding, but there is a positive relationship between education and income. Analyze American men as a whole and you find young men out-earning older men. Business is bidding high for education.

New approach

In the January 1956 issue of NATION'S BUSINESS, page 93, you carried a short article about the "simplified letter." This new approach to handling business letters apparently has a good deal of merit. For this reason we would appreciate your forwarding a copy of the sample letter you mentioned.

W. A. CRUTCHER
The Carter Oil Company
Denver, Colorado

448 requests for the simplified letter have been filled. For a sample, write NATION'S BUSINESS, *1615 H Street N. W., Washington 6, D.C.*

Very impressive . . .

Please send me five copies of reprint of "Election Year Report," as published in the January issue of NATION'S BUSINESS. I consider this a very impressive presentation.

DAVID F. COCKS
Standard Oil Company
Louisville, Ky.

. . . very poor taste . . .

I think the caricatures of the President and his Cabinet are in very poor taste. If Americans have no respect for their principal officers, it is small wonder that other nations have less.

E. W. KIEFER
Chairman of the Board
Port Huron Sulphite & Paper Co.
Port Huron, Mich.

. . . may we reprint . . .

May we have permission to reprint in our employe magazine the Douglas McKay article "Government a Partner, Not a Competitor," which appeared on page 36 of your January issue?

M. B. MCDONALD
Vice President
Florida Power & Light Co.
Miami, Fla.

. . . and may we?

Request permission to reprint Charles A. Wilson story in January issue.

JOHN W. FITZGERALD
Pontiac Press
Pontiac, Mich.

Permission granted.

Not tax free

Your article concerning the excise tax outlook in the January issue was terrific. The details you mention must have required long study and investigation and we hope it will be read by all congressmen. The only question we have about your article is the listing of inexpensive fur coats as tax free. No doubt this was set up in the wrong column.

ARTHUR J. DITTMAN, JR.
Furriers, Inc.
Chicago, Ill.

It was. Inexpensive fur coats are taxed; expensive cloth coats are not.

Vanishing copy

Your August issue contained an article on the vital need for sales personnel in all business. I passed on my copy, and, just when I need it, it can't be found. I need another for information and reference.

ARCADIUS STEWART
Ace Offset Printing Co., Inc.
Los Angeles, Cal.

"America Needs a Million Salesmen" caused a rush of borrowing. Reprints are available through the Business Manager, NATION'S BUSINESS.

the candy company washed the pennies before putting them into the candy) and I wish a penny meant as much to me today as a penny did then. I was shocked not long ago when I dropped one at a street newspaper stand and didn't bother to pick it up. I have half a mind to go back right now and look for it.

We still read books

This is an age in which it is easier and easier to absorb information and entertainment without reading: We listen and we look at pictures on a screen, and that does it. Yet I note that more than 9,000 new books—books never published before—were offered in this country in the calendar year 1955. I wouldn't be surprised if the average American (if there is one) read more books during 1955 than his father or grandfather

did in 1905, let alone 1855. The moral of this is that inventions—motion pictures, radio, television, the automobile, the airplane—don't necessarily displace something else. Sometimes they just add something and make life that much richer. I can and do read a lot of books, old and new, without feeling that I am disloyal to the TV industry.

They won't stay young

The *Lancet*, a British medical magazine, remarks that the young in Western Europe and America are reaching maturity at an earlier age. Or, as the *Lancet* puts it, "Children, it seems, are getting older every year." I had noticed this in the case of our own two little girls, who grew up, left home and now have children of their own. I am glad to have scientific confirmation.

Caviar, with a smile

Waiters in Moscow (Russia) restaurants were ordered to smile, beginning at midnight, New Year's Eve. I have heard no reports of the results, but this seems to me a dangerous experiment for the Soviet government.

Some day a waiter will not only smile but laugh, and if anybody in Russia ever gets into the habit of laughing at what is laughable the revolution is doomed.

BY MY WAY

R L Duffus

Baghdad's 1002nd night

I haven't been in Baghdad but I have been reading a copy of the *Iraq Times* that somebody left where I could get at it. Baghdad today has a Scheherazade Cinema, where tales perhaps stranger than those of the "Thousand and One Nights" are unrolled. It can see, on the screen, Gina Lollobrigida and Errol Flynn, Robert Mitchum and Marilyn Monroe. I do not know whether or not it has genii produced out of bottles (I imagine the western residents have such) but on Raschid Street you can find a man who does "large-scale earth moving." A merchant named Fadhil Kadhem Al Saffrir sells "water tanks in all sizes" and, so far as I know, does not consider himself or his name any more romantic than the Smiths and Browns familiar to our own communities. The Baghdad Chamber of Commerce is on Mustansir street. It is new, I believe, since Aladdin's time.

Nearsighted maybe

Pretty women who wear glasses often take them off, especially when in the presence of persons of about their own age and of the opposite

sex. Perhaps, under the circumstances, they don't want to see too well. They may even be in love—and isn't love blind?

Love conquers all

A motion picture theater that I attended recently asked me to sign a contract not to tell how the feature film ended. I refused, paid my fare and walked right in when the usher wasn't looking. I am not going to be intimidated. I believe in, and will exercise on every possible occasion, the right of free speech. I will say—and do say—that the film ended as most films do: The hero may not have deserved the girl but he got her.

B. Franklin at age 250

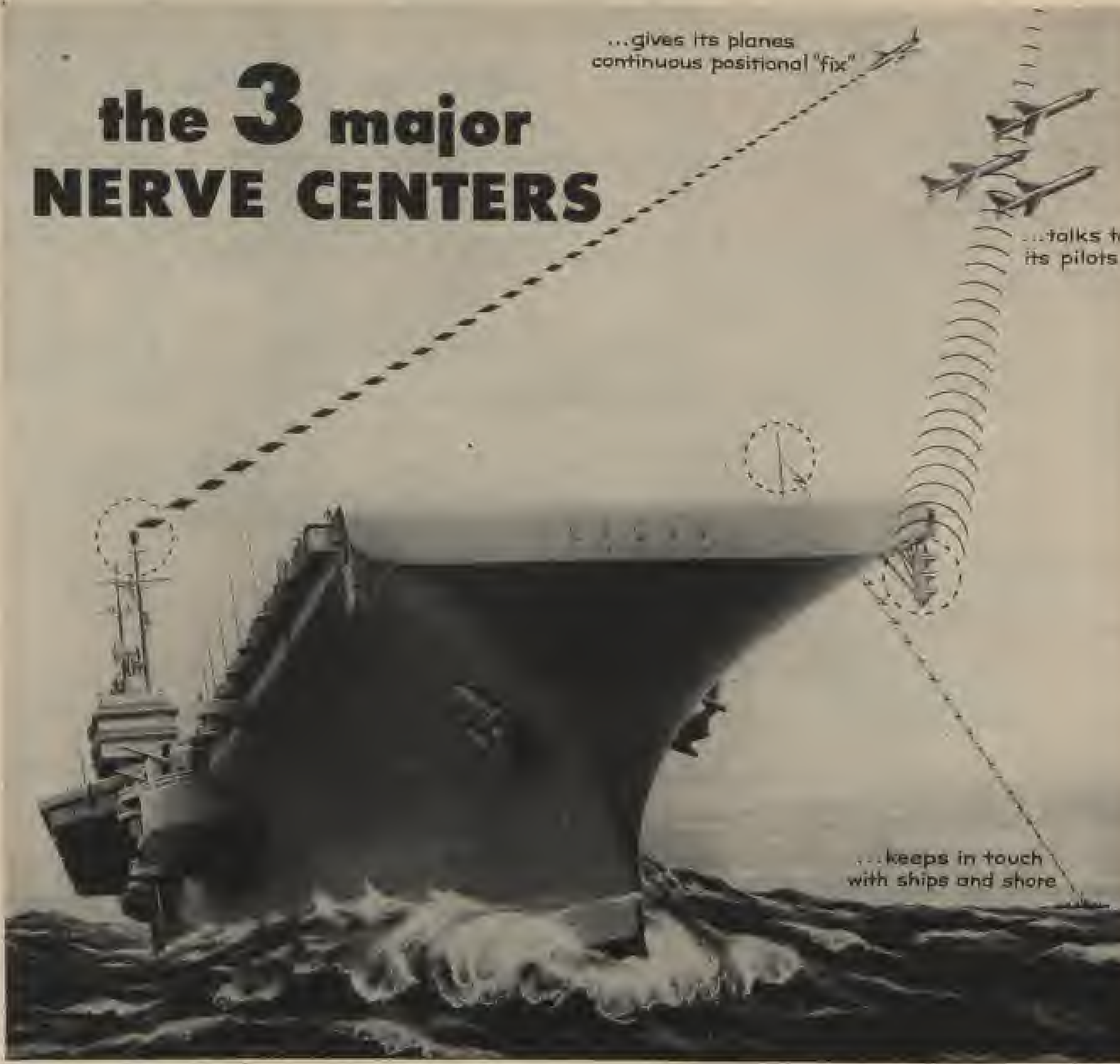
Benjamin Franklin, that first true American—and perhaps the first American businessman in the modern sense—was so interested in the future that he wished, he said, he might be bottled up for a century and then come back into the world of men. This would have landed him in the America of 1890 at the latest. He would have missed the automobile, the airplane, the radio and television as essential parts of life. He would have had to do without the atom bomb and atomic power. If he had known all this I imagine he would have made the figure 150 years or maybe 200.

There's always a chance

In this presidential year I have read many discussions of what a hard job the President's is. And I can almost imagine some future American mother telling her little boy that if he studies hard and keeps the wood-box filled and doesn't stay out too late at night maybe he won't have to be President.

The vanishing penny

Reports that pennies are so scarce that bankers call vainly for them and the mint is working overtime to produce them take my mind back to my childhood. In Vermont we used to get the big Canadian cents, and it took only one or two of these to make a small boy feel rich. There was a species of chocolate candy that sometimes—about one time in 500, I imagine—had a penny inside. If you didn't accidentally swallow the penny you could, of course, buy another piece of candy with it. You could break a tooth, too. But this was good, clean fun (assuming that



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Trends
of Nation's Business

THE STATE OF THE NATION BY FELIX MORLEY

Rule by decree becomes an issue again in states' rights dispute

In protest against a ruling of the Supreme Court of the United States, several of the original 13 states are now acting by legal and time-tested procedure to block its application.

It would be a grave mistake to regard this determined move, which emanates from Virginia, as being primarily a matter of racial prejudice. Indeed, the Attorney General of Texas suggests that "interposition" might be used to prevent federal regulation of gas and oil production. And the roots of the protest trace directly to action taken by the English Parliament in 1641, abolishing the Court of Star Chamber because its judges "have undertaken to punish where no law doth warrant, to make decrees for things having no such authority," to quote the words then used.

There was no racial problem in England, three centuries ago. But Englishmen of that day thought it intolerable for England's highest court to rule without the sanction of legislation, as Star Chamber did. Seventeenth Century Englishmen carried that same dislike of judicial dictation to America. It was a Virginian named Thomas Jefferson who justified the Declaration of Independence by the refusal of the royal judges in this country to conform to American law. So there is much history behind Virginia's belief that the Supreme Court decision of May 17, 1954, was an improper assertion of authority, which it is a duty to frustrate.

A Virginia public school provided one of the cases from which the present Supreme Court decreed that segregation is unconstitutional. Therefore Gov. Thomas B. Stanley appointed a commission to recommend the course that Virginia should follow. This Gray Commission, named after State Sen. Garland Gray who served throughout as its chairman, took much testimony, held many meetings and made its final report on Nov. 11, 1955.

This Supreme Court decision, says the Gray Report, "transcends the matter of segregation in education." It is defined as an attempt to amend the Constitution without due process of law. Raising the same objections that the English Parliament brought against Star Chamber 314 years earlier, the report asserts the decision means: ". . . that the most fundamental of the rights of the states and of their citizens exist by the Court's sufferance and that the law of the land is whatever the Court may determine it to be by the process of judicial legislation."

The Gray Report further points out that several previous decisions of the Supreme Court rendered since the adoption of the Fourteenth Amendment upheld the constitutionality of the "separate but equal" policy. Virginia has given so much consideration to its Negro schools "that now in many of our counties and cities they are superior to the white schools." The argument is that segregation is not only constitutional but also, for Virginia, sociologically desirable. For these reasons "compulsory integration should be resisted by all proper means in our power." Interposition has now been chosen as a "proper means." The Gray Report con-

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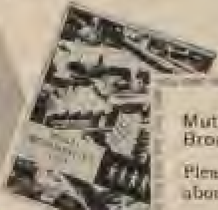

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ceded that in some parts of Virginia integration might work successfully. But in others "it is believed that the people will abandon public schools rather than accept any integration." Consequently, local option was recommended. Any school district that so desires may adopt integration. But any parent or guardian who objects may send his child or children to an accredited private school, under a tuition grant up to the per capita cost of public schooling in the locality making such grant. The formula upholds the traditional American belief, illustrated by every Parent-Teacher Association, that the conduct of education should be a parental responsibility.

Section 141 of the Virginia Constitution, however, has been held by the state courts to prohibit the use of public funds to pay tuition fees at private schools. Because the state has been making such grants, including professional scholarships to qualified Negro college graduates, there was already a movement to amend Section 141. Throwing its weight behind this movement, the Gray Commission recommended the summoning of a special convention to revise this one section of the Virginia Constitution, so as to prevent compulsory integration in any school district of the Old Dominion. All the necessary steps leading to this amendment have now been taken.

* * *

First, the General Assembly, as the Virginia legislature is called, had to pass an act calling for a state-wide referendum to determine whether a constitutional convention should or should not be held.

By a ratio of five to four the Tenth Virginia Congressional District, across the Potomac from Washington, did vote to nullify the Gray Report. But every other district in the state was for it, giving an over-all favorable majority of 304,154 votes for the convention and only 146,164 against. With this strong tide of public opinion behind them both houses of the Virginia Assembly, in regular session and without a dissenting vote, approved March 5 as the date for the convention. What it all means is that Virginia, under the federal Constitution, intends to manage its domestic affairs in its own way.

But all of Virginia's leaders, from Sen. Harry F. Byrd down, are deeply anxious to make clear to the nation the full reason for the course that has been chosen. While integration has forced the issue, it is not, they claim, in itself the issue. Their case rests firmly on the Constitution of the United States, by which Virginia and the other original states formed the Union. That Constitution is a permanently binding contract, under which the states delegate certain specified powers—such as national defense—to the federal Government, but reserve all undelegated powers, among them control of education, from federal encroachment.

The Supreme Court decision demanding compulsory integration is defined throughout the South as an unconstitutional encroachment on state's rights. And the General Assembly at Richmond has taken leadership for the South by adopting its already historic resolution "interposing the sovereignty of Virginia against encroachment upon the reserved powers of this state, and appealing to sister states to resolve a question on contested power." Several of those sister states are now actively enrolled in the interposition movement.

* * *

To many Americans the word interposition, as a political term, is unfamiliar. What it means is formal action by a state government to block the operation in that state of a federal policy, deemed unconstitutional, until the issue of constitutionality can be resolved. That is the purpose of the current Virginia resolution, springing from and linked with the Gray Report.

While interposition as a political term may seem novel, the doctrine itself is almost as old as the Republic. It was first practiced in the famous Kentucky and Virginia resolutions of 1798-99, drafted respectively by Thomas Jefferson and James Madison. These were interposed against the Alien and Sedition Acts of the Fifth Congress, one of which certainly violated the constitutional guarantee of free speech.

Since those early days interposition has several times been exercised, by northern as well as southern states, against questionable opinions of the Supreme Court as well as against questionable acts of Congress. Because it has not been attempted in recent years is certainly no reason why its efficacy should not be tested again. On the contrary: "We have remained too long silent," says the resolution recently framed at Richmond, "against interpretations and constructions placed upon the Constitution which seemed to many citizens of Virginia palpable encroachments upon the reserved powers of the states."

This Virginia resolution is not an act of nullification, such as that defiantly applied by South Carolina in 1832 against the then existing tariff law. Virginia and other southern states merely ask that the Constitution be openly amended, to say clearly what the Supreme Court, in contradiction of earlier judgments, now says it says. But of course it is realized that such amendment would probably be defeated by southern opposition. Therefore, the protest against government by court decree is as sharply pointed as was that of the English Parliament of 1641 against the Court of Star Chamber —a court whose tyrannical practice under King Charles I gave the phrase "star-chamber methods" to our language.

Trends
of Nation's Business

WASHINGTON MOOD

BY EDWARD T. FOLLIARD

Congressmen observe truce in law-making in spite of campaign oratory

IT HAS TAKEN a long time, but the Republican Party has at last recaptured its claim to being the party best able to keep America prosperous.

The Republicans have been assuming that this was the case for a year or so. Now, however, they have the satisfaction of knowing that there has been a swing of the political pendulum and that most Americans seem to associate prosperity with the Grand Old Party.

Dr. George Gallup recently put the following question to a cross section of voters:

"Looking ahead for the next few years, which political party—the Republican or the Democratic—do you think will do the best job of keeping America prosperous?"

The vote:

Republican ....38 per cent
Democratic 34
No difference ..10
No opinion 18

Dr. Gallup underscored what he said was an "important political fact" in his survey. This was that more independents—the switch voters who usually decide elections—believed that the Republican Party was able to maintain prosperity than believed the Democratic Party was able to do it.

The record shows, of course, that the United States has had good times—and also bad times—under both of the big political parties. For a long period in our history, however, the Republicans thought that they had nailed down the claim that theirs was the party of abundance. This was especially true from the McKinley Administration to the outset of the Hoover Administration.

In 1896, when the Republicans were promising to lift the country out of the depression of the Cleveland Administration, Candidate McKinley was hailed as the "advance agent of prosperity," and the G. O. P. slogan was a "full dinner pail" for every American worker.

These were modest claims compared to those of 1928, when Herbert Hoover was the Republican nominee. Not only was there going to be "a chicken in every pot" there were going to be "two cars in every garage."

• • •

These promises became a mockery after the depression hit in the Hoover Administration.

For 20 years—1932 to 1952—the Democrats used that depression to flay the Republicans. They sometimes called it the "Hoover panic." Over and over again they hammered away at the consequences—millions of unemployed, bread lines, darkened factories and foreclosed farms. Later on, the Democratic orators would tell how Franklin D. Roosevelt came along to rescue the country.

Some political analysts used to argue during the 1930's and 1940's that it was impossible to throw out the Democrats so long as the country was enjoying good times. They put it this way: "Prosperity absorbs all criticism." To prove their point, they recalled how the Republicans stayed in power in the middle 1920's despite evidences of wrongdoing in the Harding Administration.

At any rate, the Democrats hoped in 1952 that the prosperity issue would be good for another victory. They had a campaign song, "Don't Let Them Take It Away," one verse of which went like this:

The worker's working every day
Driving to work in a new coupe
Don't let them take it away.

Adlai Stevenson, the Democratic nominee in '52, didn't hit the "Hoover panic" as hard as Mr. Roosevelt and Mr. Truman had before him, but

neither did he ignore it. In a speech in Houston, Tex., for example, he recalled those "terrible days," and told of widespread hunger among Texans.

"They went out on the plains," Adlai said, amidst laughter, "and caught armadillos and ate them under the name of 'Hoover hogs.'"

Candidate Stevenson got laughs, but he didn't get the votes. Texas went for Gen. Dwight D. Eisenhower, along with most of the other states.

• • •

The failure of the prosperity issue in 1952 was a shock to the Democrats, and a lesson for those who had insisted that prosperity absorbed all criticism. We know now that whatever value it had as an issue was offset by General Eisenhower's popularity, by the war in Korea, the Reds-in-government issue and others. Moreover, there were millions of voters who couldn't remember the depression; and other millions, no doubt, who had come to take prosperity for granted.

How does one political party answer a rival party that is taking credit for prosperity?

Be assured that there always is an answer. In the campaign four years ago, for example, General Eisenhower insisted that the Democrats deserved no credit for good times. He said the prosperity of which they were boasting was due, not to Democratic ingenuity, but "to war or the threat of war."

And how in this campaign do the Democrats propose to answer the Republican claim?

They propose to do it by asking, "Prosperity for whom?" Already the Democratic National Committee is supplying its orators and precinct workers with a "fact sheet" designed to show that it is the Big Fellow who has been grabbing off the main share of Eisenhower prosperity.

The fact sheet argues that the income of corporations is up 26 per cent, whereas the income of the average worker is up only seven per cent; that stockholders' income is up ten per cent while the farmers' income is down 11 per cent, and so on.

This, of course, ties in with the Democratic complaint that under the Republicans the government has been dominated by the managerial class, or, as Mr. Truman would say, the "special interests."

The Republicans appear to be not at all disturbed by this argument. Secretary of the Treasury George M. Humphrey, the least politically minded of Administration leaders, recently aimed this shaft at the opposition:

"You all remember their slogans in the last campaign—'You never had it so good' and 'Don't let them take it away.' You can ask them now: 'Who wants to go back?'"

Vice President Richard M. Nixon has been directing much of his oratory straight at the American workingman. "What does the wage earner want?" the Vice President asks, and answers: "He wants a job. He wants high wages. He wants purchasing power. He wants a sound security program for the future.

"Today, America's wage earners have more jobs at higher wages, with greater purchasing power, sounder security and fewer strikes than at any time in history, and they have peace to boot."

Vice President Nixon has taken on another chore, and that is to try and pacify those conservative Republicans who don't like the way the Eisenhower Administration has been embracing—and sometimes expanding—the social reforms of the New Deal and the Fair Deal. He tells them:

"We hear people from time to time say, 'The Eisenhower Administration is too liberal, too New Dealish. What we thought we were voting for and working for was a real conservative Administration.'

"May I at this point," Mr. Nixon continues, "talk to you very frankly about the Republican Party and what I believe it stands for.

"First, to be practical, we must consider the alternative. The choice is not between the Eisenhower program and something more conservative but between the Eisenhower program and something far more radical.

"The American people are not going to stand still. They want progress. And they want an Administration which does not look to the past or is satisfied with the present, but one which offers new and greater hope for the future. . . .

"As Republicans, let us do a little soul-searching. We have to recognize that at times in the past we have allowed the advocates of big government to steal the ball from us on the issue of progress and run away with it. We opposed the means without offering an adequate alternative. The people, therefore, assumed that we opposed the end as well. . . ."

• • •

Politically speaking, the situation here in Washington has been relatively calm for an election year. Leaders of both parties in Congress seem disposed to get legislation moving, and argue later about who ought to have the credit.

The Republican-Democratic understanding on the highway bill is a notable example of this spirit.

About a month ago, Speaker Sam Rayburn talked to Joe Martin, Republican leader of the House. He said that there was one way to get action on the highway bill if the Administration really wanted action. He said that, if President Eisenhower would agree to Democratic pay-as-you-go taxes for highway construction in lieu of long-term Republican loans, then the Democrats would get the bill started through Congress.

Mr. Martin saw the President, got an agreement from him, and now the highway bill, once believed dead, appears to have a good chance of passage.

Politicians jeopardize SOCIAL SECURITY for votes

Senate is considering House-passed revisions which would cost $2,000,000,000 more per year, boost tax by 25 per cent

TWO OLD enemies, politics and prudence, are fighting a new and bitter battle as the 1956 elections approach. The battlefield is Congress and the issue is a big—some say dangerous—expansion of social security benefits.

If politics wins—and the present election-year atmosphere gives politics the upper hand—the federal social security system will for the first time move into the field of general disability insurance.

Also for the first time, it will lower the long-standing retirement age of 65. These benefit expansions would be made even though taxes would have to be increased to pay for the expansion.

If prudence wins, the social security system will be kept as it is for a few more years, until the impact of sweeping changes made late in 1954 can be assessed. Or, at the most, the expansion will be a modest one geared to what the system can afford without another tax boost.

The proposed liberalization of benefits, admittedly chiefly of political origin, has already passed the House of Representatives by a smashing 372 to 31 vote. It is now before the Senate, where the Administration and businessmen hope to inspire a more conservative, let's-take-another-look approach. But even should the Senate reject or tone down the House-approved provisions, a final House-Senate conference might go far toward restoring them.

The controversial proposals of the House-passed bill would:

1. Start full social security benefit payments at the age of 50 to insured workers who have become totally and permanently disabled.

2. Lower from 65 to 62 the age at which working women, wives and widows become eligible for benefits.

There are several other provisions in the House bill—continuation of benefits for disabled children past the present age limit of 18, and extension of social security coverage to lawyers, dentists, optometrists and certain other groups not already covered—but these are relatively noncontroversial compared with the two big benefit expansion schemes.

No one can deny the political potency of the proposals. What could be more popular than helping old women and disabled workers? In the first year under the proposed plan, an estimated 1,050,000 voters and their families would receive some $600,000,000 of extra social security payments. Ultimately, some $2,000,000,000 or more a year would be paid out as a result of these changes. Labor unions, welfare organizations and other

always come up against the supposed political appeal of the House-passed bill. Added to the natural election-year attraction of giving money to voters, there's a sizable element of party rivalry involved.

Back in 1954, the Eisenhower Administration and the Republican-controlled Eighty-third Congress teamed up to put through a big expansion in social security coverage and more liberal benefits. About 10,000,000 more workers were brought under the system, payments were increased, the work test was liberalized, and various other changes enacted to help out beneficiaries.

Democrats were understandably chagrined to find the G.O.P. muscling in this way on a program launched by the Franklin D. Roosevelt Administration and long regarded as a Democratic property. They vowed that before the 1956 elections rolled around, they, too, would distribute some social security largesse.

The present bill is the result. It was sponsored by House Ways and Means Committee Chairman Jere Cooper of Tennessee, and was put together by the committee's number two Democrat, Rep. Wilbur Mills of Arkansas, after close consultation with House Speaker Sam Rayburn of Texas.

The Democrats pushed the bill through the House in short order. Introduced on July 11, 1955, it was reported without hearings on July 14, and passed on July 18 after only 40 minutes of debate.

Although the proposals originated with Democrats, many House Republicans climbed aboard the bandwagon. Most G.O.P. members of the House Ways and Means Committee made some telling points against the bill in supplemental views filed in the committee report on the measure, but only three of the ten committee Republicans actually voted against it. When the measure came to the House floor for a vote, Republicans paid little more attention than Democrats to an Administration go-slow plea. The G.O.P. members lined up for the bill 169 to 23.

In the Senate, Democratic leader Lyndon Johnson of Texas has put the social security bill high on his party's list of must legislation, and again many Republicans and usually conservative southern Democrats are lining up with New Dealers in favor of the bill.

Opponents of the measure are pinning their hopes on Senate Finance Committee Chairman Harry F. Byrd of Virginia. He has held long hearings on the House bill, and is apparently trying to slow its progress, feeling that delay might help him tone down the House provisions.

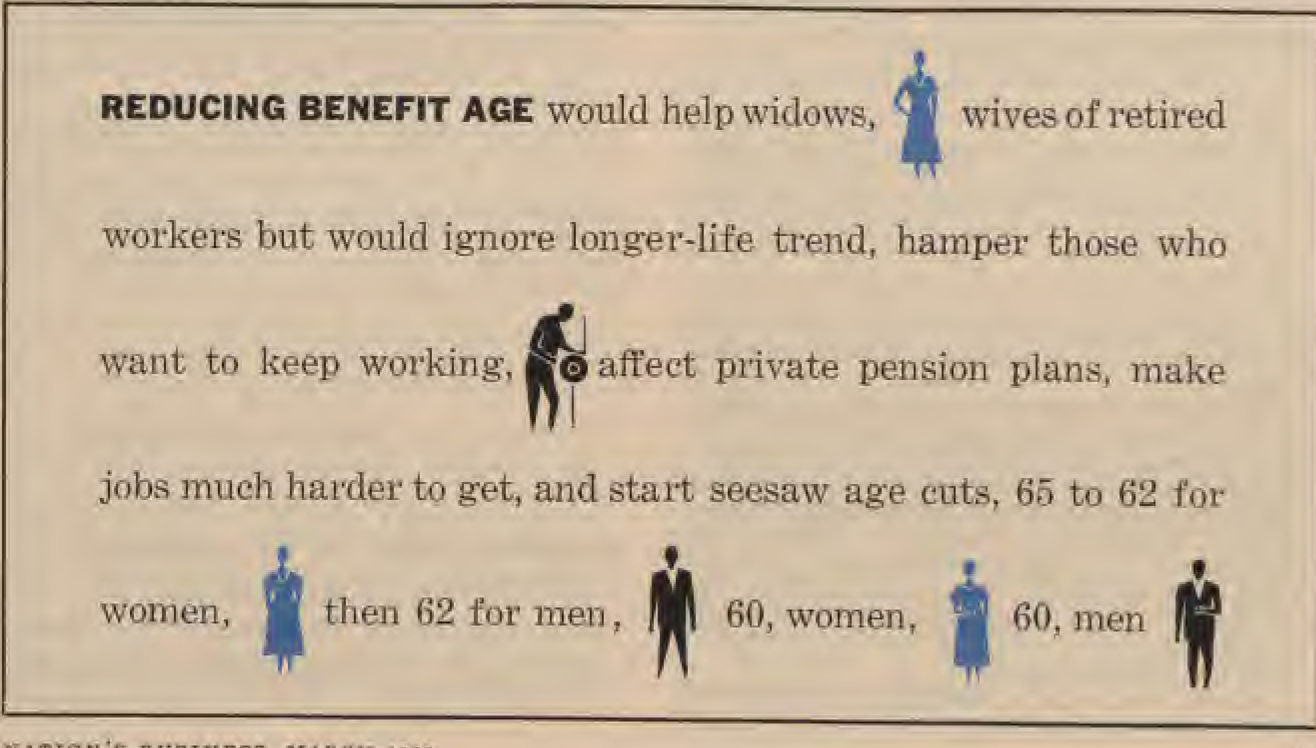
Any analysis of the proposed changes must start with the concession that the beneficiaries include many people who genuinely need help. The aged widow who has difficulty finding a job and the man who becomes permanently and completely disabled are in real distress. But, after conceding this, one must ask whether they should not be helped by other means; whether it is in the long-range public interest to make these particular changes in the social security system at this time. Then the issue becomes far more complicated than merely a matter of trying to help some unfortunate people. A more detailed analysis of the two controversial changes illustrates this.

The bill would reduce from 65 to 62 the age at which women would become eligible for benefits. This would apply to working women, to the wives of retired insured workers, and to widows and dependent mothers of deceased insured workers.

Robert J. Myers, chief actuary of the Social Security Administration, estimates that, in the first full year the lower age is in effect, some 800,000 additional women would receive an extra $400,000,000 of benefit payments—about 300,000 retired women workers, about 200,000 widows and mothers, and about 300,000 wives. He estimates that in 25 years the social security system would be paying out an extra $1,300,000,000 a year as a result of the lower benefit age for women.

Much of the support for this change comes from the fact that it includes earlier benefit payments to wives of many retired workers. Most wives are younger than their husbands. Under present law, if a man retires at 65 and his wife is only 63, say, he is not entitled to additional payments for his wife for another two years—until she reaches 65. The argument is that a couple can't be expected to live on the same benefits as a single man, and so the bill would permit this man and others like him to get benefits for their

(Continued on page 103)



SOCIAL SECURITY

started as retirement program. Disabled worker needs help but benefits would put program into disability insurance field, undermine rehabilitation, zoom costs, still not relieve hardship

powerful groups have turned on the heat in favor of the bill. Lawmakers report that mail on this single piece of legislation is running as heavy as the total on dozens of others together.

But behind the political advantages stand some big question marks. Why, for example, when people are living longer than ever, when women are living longer than men, and when old people are being encouraged to continue working later into life, should the retirement age for women be lowered? Why should a disability program be set up for workers 50 and over? Is disability any less of a hardship for workers under 50? Will the disability program weaken the tremendous efforts now being made to rehabilitate the handicapped?

These questions point a basic objection to the changes, one that has the government's social security experts awake nights. It is this:

The changes, sweeping and expensive in themselves, would be certain to lay the groundwork for others even more sweeping and costly. Once the benefit age for women is cut to 62, the pressure will mount to cut the age for men to 62, then to cut the age for women to 60, then to cut the age for men to 60, and so on. The same applies to the 50 year age limit under the disability plan. Labor has already announced that the program in the House-passed bill would be only the first step toward a universal disability program with no age restriction.

With all these subsequent expansions of benefits social security taxes to finance them would have to go higher and higher.

Even the changes now before Congress would require a substantial tax boost. To finance the benefit expansion it proposes, the House-passed bill would immediately boost by 25 per cent the social security tax rate. A worker and his employer would, under the bill, each pay 2.5 per cent —instead of the present two per cent —on the first $4,200 of the worker's annual income. Self-employed people would pay 3¾ per cent instead of the present three per cent.

This new increase, together with later increases in tax rates already provided by law, would gradually increase taxes to the point where, in 1975 and later years, a worker and his employer would each be paying in taxes 4.5 per cent of the first $4,200 of the worker's annual income. A self-employed person would be paying 6¾ per cent. Since the social security tax is levied without respect to exemptions and deductions, more and more people would be paying each year a larger social security tax than individual income tax.

All this brings opponents of the bill to another basic argument against it. How high, they demand, can you boost social security taxes before they encounter widespread public resistance? Marion B. Folsom, Secretary of the Department of Health, Education and Welfare, has warned that "we should remember there is a limit to the social security taxes the people may be willing to pay to support the program in all the years ahead."

Naturally, no one knows just where the limit might be. But many social security experts are by no means sure that the present proposals wouldn't break through it. Moreover, they say, if there is still some leeway left for an increase in social security tax rates, over and above those now automatically provided by law, why not wait and make sure that this increase isn't needed later to pay for benefit changes more desirable than those in the pending bill? Lowering the benefit age for women and the new disability scheme could easily preclude many more desirable social security changes later, they argue.

Many other changes have already been proposed. Some lawmakers feel the present benefit payment schedule is generally too low. Others push hard for liberalization of the so-called work test, which requires a reduction in benefits if a beneficiary earns more than $1,200 in covered employment during a year. Still others urge payments for medical expenses of old folks, payments to old people never covered by social security, higher payments for persons who postpone retirement until after they're 65, a higher proportionate benefit for a wife or widow, or continued benefits for all dependent children, even after they're 18.

The social security system, or the Old Age and Survivors Insurance system as it is more exactly called, is already a large enterprise. Today it covers about nine out of every ten workers and self-employed people. Last year, they and their employers paid about $5,700,000,000 into the social security trust fund. This year they'll pay in close to $6,500,000,000. At the end of 1955, the fund totaled $21,663,000,000, and was earning interest at the rate of $461,000,000 a year.

About 8,000,000 persons are now drawing benefits from the system. Last year, they received just under $5,000,000,000. This year they'll probably get about $5,700,000,000. This money is going to some 5,800,000 retired workers and their dependents and some 2,200,000 survivors of insured workers. The benefit payment ranges from a $30 a month minimum for a single retired worker or lone survivor to a maximum of $200 for a fair-sized family.

Arguments that Congress should now go slow in liberalizing benefits

Two other factors help throw the comparison off:

1. The United States is a lot bigger than it was in the 1920's, and a bigger country needs to build more.

2. A bigger proportion of building today is by public agencies, which are not subject to speculative dangers of overbuilding.

When we take these matters into account we find that the actual physical volume of new private construction, per capita, is running just a little more than 80 per cent of the peak level of 1926—hardly a cause for alarm.

The construction industry actually is still trying to catch up with huge backlogs which are compounded by current demands. Those who think we are overbuilding overlook the fact that most types of private construction went through a stretch of lean years from 1930 all the way through 1945. In the 1930's the bottom dropped out of building. During World War II nondefense construction remained low. Unlike eating, building is postponable under emergency conditions for long periods. Of course, this underbuilding has its price, collectible later; and it may be that underbuilding is the worst form of borrowing from the future.

Even in housing, a setback in the number of starts would not mean overbuilding. Actually a drop of ten per cent in nonfarm housing starts isn't as serious as it seems. Because houses are growing larger and more expensive, dollar volume of homebuilding won't drop by anything like ten per cent.

Homebuilding is closely tied to the supply of credit, and this year's expected drop can be attributed largely to the competition for funds among all types of business during a period of record-breaking prosperity, together with deliberate slow-down actions by federal credit and housing agencies.

There is no evidence that the basic demand for housing has weakened.

VACANCY rates have stayed at rock-bottom levels all during the homebuilding of the year 1955,

and any signs of overbuilding would quickly show up in the vacancy figures. There is a good chance that easier credit conditions will bring about an upturn in housing starts later this year.

The long-term outlook for housing is glowing. Right now, we are forming new nonfarm households at the rate of 800,000 or so a year. In addition, we are losing from 300,000 to 400,000 houses a year from all sorts of causes, ranging from fires and floods to hurricanes and highway building. Together, these figures mean a basic annual need for more than 1,000,000 housing units a year. Add to this several other facts:

- Household formations will rise soon as the bumper baby crop of the war and postwar years begin to come of marriageable age.
- General prosperity means the up-grading of family incomes and a demand for newer and better housing.
- The traditional restlessness of the American people inspires some 9,000,000 families to move each year, many of them to newly developing areas.
- We have large stocks of substandard housing still in use which can and should be junked.

ALL THIS adds up to a minimum need for 12,000,000 or 13,000,000 new houses in the next ten years, and a lot more after that.

Population trends—obviously basic in the housing market—are at work throughout the construction industry. All building is done to meet the needs of people. Sometimes the buildings themselves satisfy the need; in other cases such as factories and stores, the buildings help produce and distribute other things that people want. In every case, the demand for building depends on people and their prosperity.

The most remarkable population trend today is growth. We are producing babies at record rates; and increasing the average size of families. At the same time we are adding to life expectancy.

AS A RESULT, every two years our population grows by the equivalent of metropolitan Chicago, including its suburbs.

During the decade of the 1950's, we will add more people than if we annexed all of Canada and all of Australia. The size of the new market we are creating, not just for building but for everything else, is almost beyond imagining.

We haven't quite realized the full importance of this growth trend. We have neglected to change our thinking sufficiently away from the population-stagnation theories popular in the 1930's. As a result our nonresidential building in particular has failed to keep pace with the population growth of the past 15 years.

THERE ARE signs of underbuilding even in industrial construction.

A little history will illustrate. After the Korean war, factory building tended to decline even though most other construction was headed upward. In the fall of 1954, the government and private organizations made surveys of business plans for investment, and the results were not encouraging. According to the reports of the businessmen themselves, 1955 would see about five per cent less factory investment than 1954.

What happened was amazing. Instead of falling off, industrial construction went up by 17 per cent, and contract awards for future factory building, as reported by F. W. Dodge Corporation, rose by 47 per cent, indicating (Continued on page 60)

$600,000,000,000: that's construction's ten-year outlook

Residential building is not the whole construction picture. There's evidence of underbuilding elsewhere. The analysis here tells you where, and what it means

IS THE AVERAGE American family of the future going to be content to live in a house that's 150 years old?

They may have to be content with just that if we don't step up our production of new houses far beyond present rates. Most of the new housing built today is absorbed by new population growth and the formation of new families. What's left over would replace our present stock of houses in about a century and a half.

Many people believe that we have been overbuilding in all directions, and that the construction industry is literally building up to a letdown.

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ACTUALLY, today's huge dollar volume of building obscures the fact that we have been underbuilding in most major types of construction for many years.

The fear of overbuilding is pretty much based on the enthusiastic manner in which houses have been going up all over the landscape, and it's true that underbuilding is not particularly obvious in the residential category. It's also true that 1956 won't be as good a year for housing as last year, by perhaps ten per cent fewer housing units.

Some analysts deduce from this trend that the building business is going to be a soft spot in the months ahead, with perhaps a dampening effect on business in general.

This argument contains enough logic to make it worth examination. During the reluctant recession of 1954, for example, construction prosperity played a major part in turning the tide toward recovery. New construction is by far the nation's largest fabricating industry. It accounts for more than a tenth of our total national output, and involves the direct spending of more than $40,000,000,000 a year. A drop in building obviously could have some unfortunate consequences.

No such drop is in prospect.

Home building is only one segment of the huge construction industry. In a typical year (not 1955), some two thirds of the construction spending goes into nonresidential projects.

EVEN if housing activity dips this year, there's enough bounce in nonresidential building to push the industry to new record heights.

There are few signs of overbuilding in the nonresidential categories; and although some types of housing may be in oversupply in a few areas, there's no evidence of any nationwide problem in residential building, either. The truth is that, as a nation, we are underbuilt with respect to most types of construction.

Fear of overbuilding probably stems from the dollar figures on constructions, which have been setting new high records regularly year after year. On the surface, the dollar figures have a frightening aspect, because we will spend about three times as much this year as we did at the peak of the boom of the 1920's, and we all know what happened then. This is only on the surface, however, because the dollar is a rubber yardstick, and the construction dollar is more rubbery than most.

A GREAT DEAL of the apparent increase since the 1920's has been just that—apparent—because of a sharp shrinkage in the amount of building a dollar will buy.

newspapers he is always accessible to reporters. They quote him almost daily on tax matters, usually attributing his statements, at his insistence, to an anonymous informed source on the Ways and Means Committee.

Newsmen, fellow-lawmakers and congressional staff members agree that several factors have contributed to Mr. Mills' rise. The one invariably cited first is that he is a bona fide expert on the complexities of tax law.

A product of Harvard Law School, he had a first-class legal mind to begin with, and he has spent the past 18 years conscientiously cramming it with every scrap of information he could find on the theoretical and practical aspects of taxation. The result, in the words of one Democratic colleague, is that "Wilbur is one of the few members of Congress who doesn't have to rely on the advice of staff professionals to figure out how a particular tax proposal would work and what effect it would have."

An expert in tax matters, who has worked closely with Mr. Mills for a number of years, had an even stronger tribute:

"He understands tax legislation better than any person I know. He reads every bill and report as thoroughly as the staff. He can hold his own in a technical discussion with any tax attorney, or with any of the Treasury's experts."

Republicans as well as Democrats respect his mental equipment. Rep. Noah Mason, an Illinois Republican member of the Ways and Means Committee, often disagrees violently with Mr. Mills on tax policies, but nevertheless rates him "one of the best-posted men on the committee."

"He has," Mr. Mason adds, "a good grasp of the whole tax problem and its effect upon the economy."

Mr. Mills has taken the trouble to make himself an authority on taxation not merely because he finds this abstruse subject fascinating, but because he decided years ago that the only way to achieve any real influence in Congress is to build a reputation for knowing what you're talking about.

"Members of Congress are fair but stern judges of each other," he explained recently. "A conscientious congressman knows he can't make an adequate personal study of all the complicated bills he's required to vote on. So when something comes up that's outside his field, he tries to find somebody he can rely upon to give him straight facts and intelligent judgments. After you've been here for a while, you're tabbed as either knowing your subject or not knowing it. I've sought to know my subject."

Mr. Mills' mastery of his subject is enhanced by the fact that he is a good speaker and a superb legislative technician. When the House takes up some bill of interest to the Ways and Means Committee, he remains on or near the floor from the time the opening gavel falls until the chamber adjourns. His speeches, particularly those outlining proposed tax measures, are always lucid and sometimes eloquent; his answers to members' questions are direct and to the point.

But it is behind the closed doors of a committee room that his legislative skill shows best. Compromise may be a nasty word in some lexicons, but it is the indispensable art in getting bills through Congress. Mr. Mills is one of its most accomplished practitioners, both in the Ways and Means Committee and in the joint conference committees which are appointed to iron out differences between Senate and House versions of legislation.

His technique is to maintain friendly personal relations with members of both parties, avoid taking any extreme positions of his own, listen quietly while others take their stands, and then try to offer a solution that will satisfy the majority without driving the minority into irreconcilable, bitter-end opposition.

How well the technique works was demonstrated by a joint Senate-House subcommittee which was set up last year to study the economic effects of tax policy. Mr. Mills was its chairman. Other members were Rep. Thomas B. Curtis, a Missouri Republican, Democratic Sen. Paul H. Douglas of Illinois and Republican Sen. Barry M. Goldwater of Arizona. It would be hard to find a subject on which Republicans and Democrats in general, and Senators Douglas and Goldwater in particular, would be more likely to get into a political dog fight.

It was widely predicted in Washington that the hearings would result in sharply partisan Republican and Democratic reports designed primarily as election-year campaign ammunition.

Nothing of the kind happened. The hearings which Mr. Mills conducted last December were so scholarly in tone and so completely lacking in partisan strife that reporters soon quit covering them. After weighing the advice of 81 leading economists, university professors and tax attorneys, the subcommittee brought forth a unanimous, bipartisan report.

The report was a remarkable document in several respects other than its unanimity. Treading boldly onto territory that most politicians regard as quicksand, it held that a 1956 tax cut "in the face of a booming economy, might well be inflationary." It also anticipated President Eisenhower's budget message by more than two weeks in forecasting a government surplus, and in recommending that it be applied toward reducing the bank-held federal debt.

"Only in highly prosperous times such as the present are we likely to find it economically possible to reduce the level of the federal debt," the subcommittee said. "We should reduce the debt during periods of boom to offset the deficits resulting during periods of recession and depression."

There is no doubt that these statements accurately reflect Mr. Mills' own deeply held convictions about tax policy.

He sincerely believes that no over-all reduction in tax revenues can be justified under present conditions. But it does not necessarily follow that he will fight any and all tax cut bills at this session.

On the contrary, there are at least three conditions under which he might take part in pushing a tax relief bill through the House. Two possibilities, which seem rather remote at present, are suggested by loopholes which the subcommittee carefully worked into its report; the third, and most likely, is suggested by the facts of political life.

The report says:

"Of course, it must be recognized that the economic outlook may change rapidly in the coming months. It may become apparent that expansion of economic activity is slowing, and that a higher rate of increase in total demand is required to make full use of our growing productive capacity. . . . In this event, we would be in a position to reduce taxes. . . ."

In other words, if business should go into an unexpected slump, tax cuts would be in order to stimulate purchasing power.

Another section asserts that "improvements in the revenue structure are always timely." This provides Mr. Mills with an escape clause if House Democrats find a way to grant *(Continued on page 66)*

THIS MAN SHAPES YOUR TAX BILL

Arkansas Representative Wilbur Mills favors debt reduction over tax cuts, but three conditions might change his mind

REPRESENTATIVE Wilbur Daigh Mills of Kensett, Ark., is a man you ought to know, because his name belongs near the top of any list of Washington officials whose actions and attitudes have the greatest impact on the nation's business community.

Mr. Mills is one of the top Democratic tax experts in the House of Representatives.

As a key member of the House Ways and Means Committee, which originates all federal revenue measures, Mr. Mills also has a considerable voice in the formulation of tariff and social security measures. Some of these affect business almost as profoundly as general tax policy.

This studious, 46-year-old lawyer is now serving his eighteenth year in the House. Aside from the chairmanship of a special Senate-House subcommittee which recently conducted a notable study of tax policy, Mr. Mills holds no formal title that gives a clue to his real position. In the Ways and Means Committee, he ranks as the number two Democrat, under Chairman Jere Cooper of Tennessee. Actually, however, Mr. Cooper leans toward the role of impartial presiding officer, and often remains aloof from partisan scrimmages over tax legislation, leaving it to Mr. Mills to carry the ball for the Democratic majority. When the late Robert Doughton was chairman of the Ways and Means Committee and Mr. Cooper ranked as number two, the present chairman answered the questions and carried the ball just as Mr. Mills does today.

Although you rarely see Mr. Mills' name in the

15,000,000 amateurs will raise $5,400,000,000 for philanthropic causes this year. Here are professional tips on how to organize the campaign, what it should cost and the effective appeals

Here is what these workers need to know. The answers are by David Church, executive director of the American Association of Fund-Raising Counsel, Inc. Eighteen professional fund-raising firms—there are about 400 in the country today—created the association 20 years ago. Among other duties, it prepared a code of ethics under which professionals operate today.

Answering the question, "When should we hire a professional?" Mr. Church says:

"In a local campaign you don't need professional direction if you have a good volunteer leader. In fact, some volunteers have been through so many campaigns that they are almost as experienced as the professionals. But it will have to be somebody who can give himself to a project almost body and soul. I can best tell you how we in the profession feel by reading a few sentences from one of our leaflets:

" 'Even dedicated volunteers have long ago discovered two facts. 1, The burden of administrative detail is too great for them to carry in addition to actual money-raising efforts; and, 2, new fund-raising techniques develop so rapidly that those professionals experienced in many campaigns are able to give volunteer workers invaluable guidance which they can find nowhere else. In short, as the number of campaigns multiply in a community and the competition for the philanthropic dollar becomes keener, the fund-raising profession fulfills the twin needs for administrative help and technical advice.' "

As for the professional's fee:

"When a professional is retained," Mr. Church says, "it should be on the basis of a flat fee known to everybody in advance, and not on a basis of a percentage of the money to be raised. The fee is determined largely by the time that will be required of the fund-raiser. In the smaller drives—say from $50,000 to $150,000—these fees may range from $2,500 to $4,500.

"Nor do we approve of an open, unstipulated expense account for the professional. We insist that a budget be set for the general costs of the campaign—printing, postage, travel, rent, telephones, clerical help, meetings, publicity, and the rest. In a fairly modest local campaign—say for a church or a hospital—the professional's fee plus all general expenses should run to somewhere between five per cent and seven per cent of the goal to be reached.

"A campaign for a college is different. Alumni have to be contacted throughout the country. Many regional headquarters may have to be set up. A great deal of travel may be necessary for volunteer speakers. On such campaigns the total costs may run from 15 per cent to 17 per cent."

But in no case, he insists, should the professional's fee represent more than one third to one half of these total costs.

What service should a professional be expected to provide?

"To begin with," Mr. Church says, "we never accept an assignment without making a preliminary investigation. Is this project for which the funds will be raised really necessary? Does the community itself really want it? Unless a community feels convinced of urgency, it won't respond readily to an appeal for contributions. And nobody—certainly not a fund-raising firm—wants to be associated with a campaign that promises to fail."

Once the need of a project has been definitely established, the investigator is on solid ground. He launches a series of interviews, often with scores of citizens, to determine:

1. What is the potential leadership of this campaign? Will there be enough dedicated and enthusiastic volunteers to serve as committee chairmen, ready to give their time and labor?

2. Will there be enough volunteer workers to carry out the plans of these leaders? Even a modest drive for church funds may require the concerted efforts of several hundred workers.

3. What are the financial prospects? Are enough well-to-do people interested in this project to suggest a healthy response to the Special Gifts and Advance Gifts Committees?

4. What is the record of other fund-raising drives sponsored by this particular organization?

5. Will the sponsors provide an adequate budget so that the campaign may be run efficiently?

The only way to learn these things, Mr. Church maintains, is to talk to people—hundreds of them if necessary. Once the professional fund raiser is satisfied on all counts, he writes out an analysis of what he has learned. He also writes out a complete, detailed plan for raising the required funds. This includes the number and type of committees he would recommend, the clerical help that will be needed, the printing plans, and everything else. It is, in short, a solid program.

"For this," Mr. Church says, "the professional fund raiser gets only a nominal fee. It may run to only a few hundred dollars in the case of a small project. Naturally, where he may be called upon to put in many months of study—say for a university's campaign to raise a $15,000,000 endowment—this preliminary fee may run to several thousand dollars."

But once this preliminary report has been made, the community is free to undertake its drive without further help from the professional. He has no contract beyond this point. The amateur volunteers can follow his blueprint without additional cost.

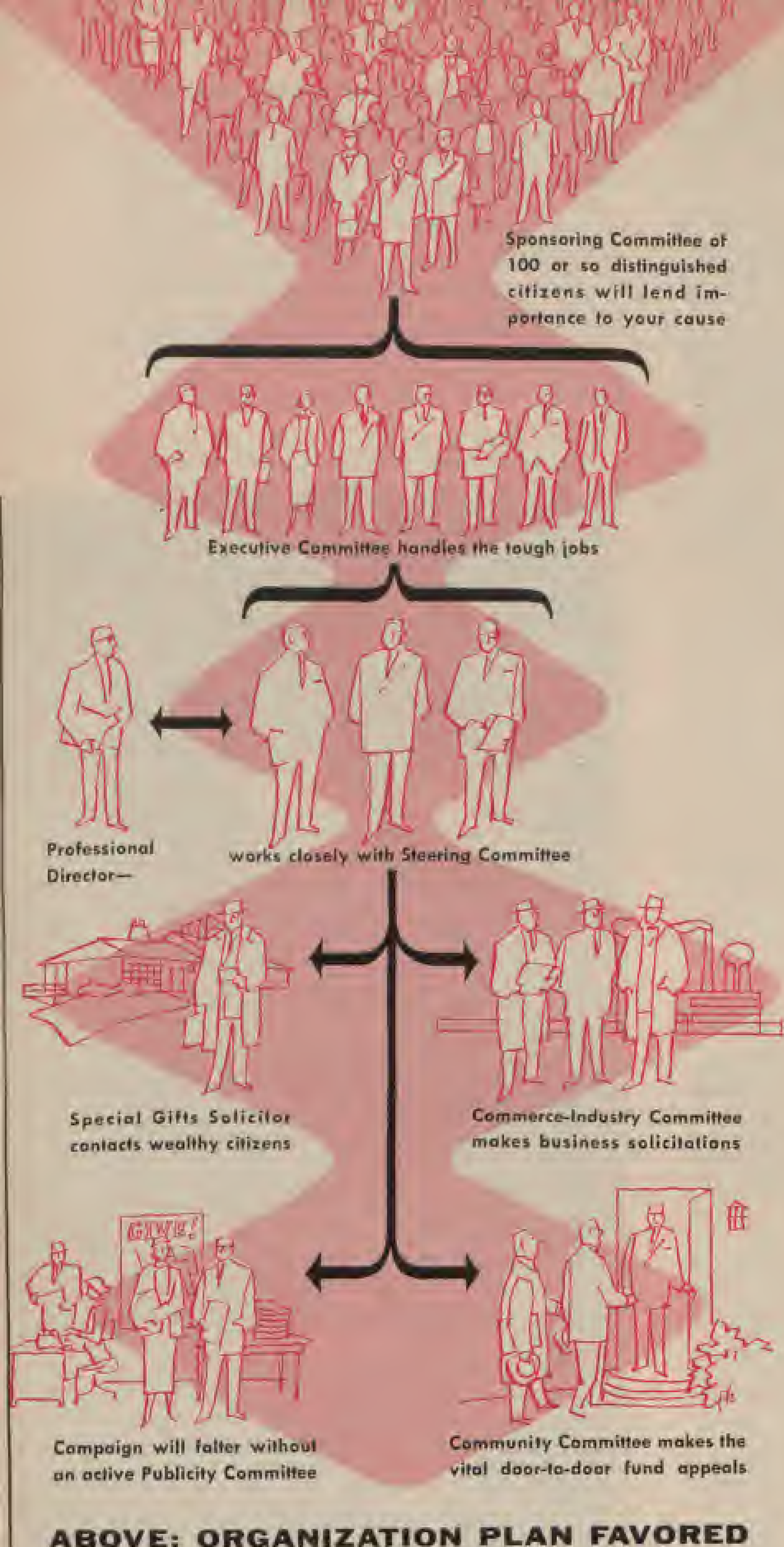
"On the other hand," Mr. Church says, "if the professional's services are desired to manage the campaign, this is when his fee is agreed on, and it always runs for a clearly stipulated time."

Every professional works through committees. He immediately organizes certain basic groups of volunteers. Here they are:

▶ A sponsoring committee of 100 or so distinguished citizens whose names lend importance to a cause. The more civic, social, and religious organizations they represent, the better.

▶ Their names can usually be provided by an executive committee of eight or ten hard-working leaders who will be ready to give the project most of their evenings. Frequently these select from among their own number a steering committee of

(Continued on page 88)



ABOVE: ORGANIZATION PLAN FAVORED BY MOST PROFESSIONAL FUND RAISERS

THESE FUND RAISING TIPS PAY OFF

MORE than 15,000,000 businessmen, employes, and professional people will raise $5,400,000,000 for philanthropic causes this year.

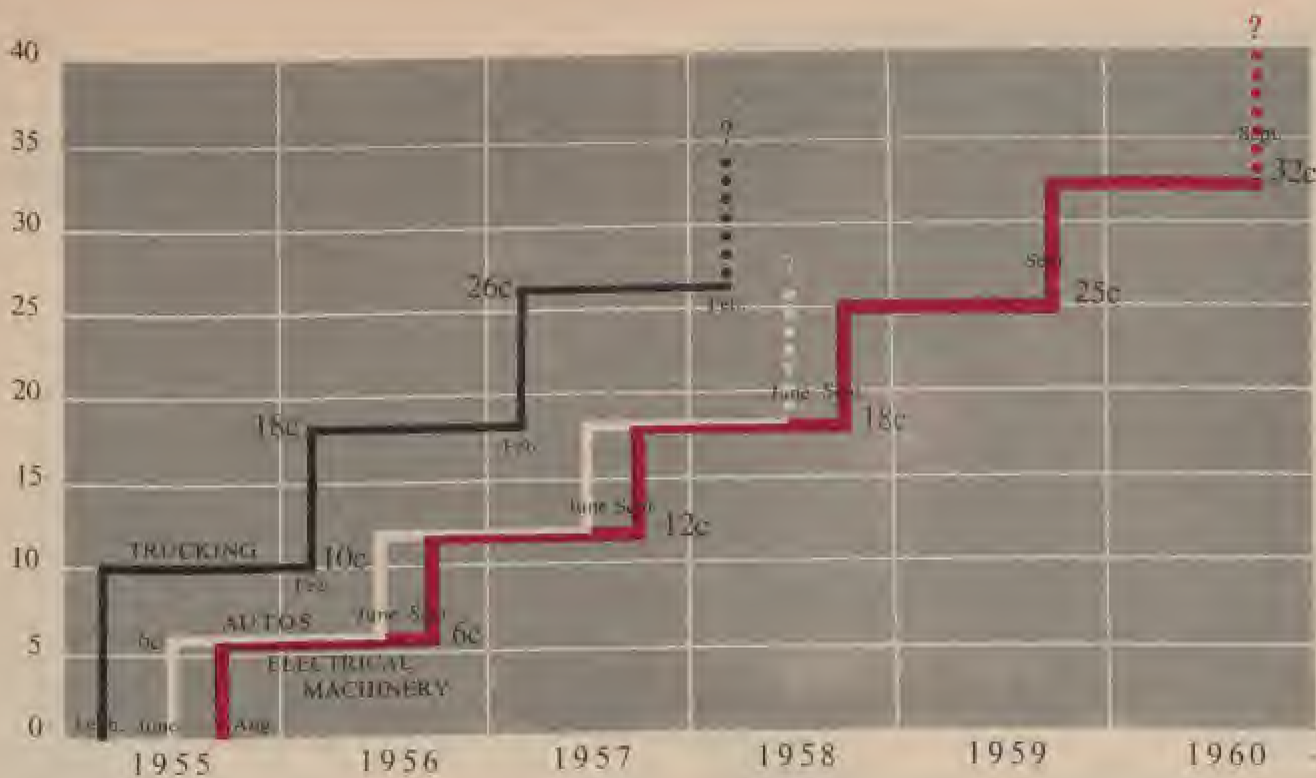
Every one of them will face the questions:

How do you go about raising $50,000 for a community teen-age center or $200,000 for a new church? Are there tested and accepted methods? Can we do it alone or do we need to hire a professional fund-raising firm? If we hire professionals, what should we pay them?

These questions demand sound answers because the competition is terrific.

In addition to national organizations such as the Red Cross, the Community Chest, the March of Dimes and the United Jewish appeal, more than 325,000 local churches and synagogues will depend on gifts. So will more than 7,000 hospitals, the privately supported colleges, the homes for the aged and crippled and hundreds of health institutions and foundations. New York City residents will be exposed this year to more than 1,200 local and 600 national fund-raising campaigns—an average of five solicitations a day.

These solicitations will be made by volunteers because, even when professionals run the drives, they depend on local workers for actual contacts with the donors.



HERE'S HOW MUCH WAGES WILL RISE *in next few years in three of the growing number of industries which have made long-term wage agreements since 1948. Chart does not reflect the cost-of-living adjustments that are also provided*

The theory is that built-in yearly increases reflect the trend of increased productivity and their cost will be absorbed through greater unit production per man-hour. Productivity of workers increased, on the average, between three and 3.6 per cent a year from 1947 to 1953, depending on the method of measurement, and approximately five per cent a year during 1954 and 1955.

Yet, the BLS commissioner finds it difficult to establish any short-range connection between wage rates and productivity.

"One thing we know," he says, "productivity achievements differ greatly among industries, even among business concerns in the same industry.

"So some companies in some industries undoubtedly are unable to absorb higher wages; in fact, some concerns have to go out of business because they cannot meet even existing wage costs."

Mr. Clague believes that deferred wage increases "probably have some effect in stimulating other unions to seek increases as soon as their contracts are open."

"However," he says, "the underlying stimulant to wage increases is business prosperity with high employment.

"During slack times or in industries which are experiencing a business downturn it is hard for workers to gain wage increases even though these are occurring in other industries."

Discussing the factors responsible for the stability of living costs during this period of rising wages, Mr. Clague says:

"The Consumers Price Index has remained stable for the past three years, its extreme range having been less than two per cent. On the other hand, wages—in manufacturing, for example—have risen more than ten per cent during that same period. Thus, each rise in money wages has meant a net gain in purchasing power for the workers.

"The stability of retail prices during the past three years has been due in considerable measure to the lower prices for foods and other farm products. These reached a peak early in the Korean war and have been coming down since. These declines have been enough to offset the rising costs of rents and services, which are usually slow moving and will take years to catch up with the general level of prices."

Some economists believe that, more fundamentally, the stability may be attributed to sound money policies of the government.

Dr. Jules Backman, professor of economics at New York University and an economic consultant to the steel industry, believes deferred annual wage increases point up a conflict between a company's desire for labor peace over a long period—at a price—and the question whether the business can commit itself to a wage increase of considerable size for two, three or five years in advance.

"The deferred fixed annual wage increase assumes a regular increase in productivity which just does not take place in our economy," Dr. Backman says. "There is a serious question of trying to impose uniform annual wage increases based on nonuniform productivity increases merely because, over a long period of years, they have moved forward in the same direction and in the same magnitude. However, there has been no close relationship in magnitude for short periods."

He points out variations in the wage-productivity relationship which occur in our free economy. In addition he notes that in periods of growing unemployment wage increases are difficult to obtain. An illustration was the lack of a general wage increase in major industries in 1949, when most unions settled for pension plans. At the other extreme, we have the negotiated wage increases last year which in general exceeded the rise in productivity.

Those who favor long-term wage contracts point to the stability they offer in the way of continued production and planning.

Joseph E. Moody, who heads wage

(Continued on page 106)

BUILT-IN WAGE BOOSTS POINT TO RISING PAY

How long-term contracts giving 2,750,000 workers up to ten cents higher pay this year may affect your industry is explained here

AMERICA's wage bill will continue to rise this year as it has every year since 1934.

How much it will rise is already known in the increasing number of companies—now employing about 2,750,000 workers—with union contracts which include deferred increases due this year. Most of these companies are in the automobile, farm equipment, electrical machinery, soft-coal mining, trucking, flat glass, atomic energy and construction industries.

Except for coal mining, the contracts run from three to five years, with fixed annual increases and, in many cases, quarterly cost-of-living adjustments.

These built-in increases for 1956 will average ten cents an hour in soft-coal mining, eight cents in over-the-road trucking, seven cents in atomic energy, six cents in major automobile, farm equipment and electrical machinery companies, and five cents in flat glass making.

An increase of 320 per cent over a 22-year period has brought the average hourly earnings of factory workers to a new peak of $1.85 (counting higher pay for night work but not for overtime hours). An end to the rising trend is not in sight.

The growing reliance on long-term wage contracts which include a built-in type annual wage increase of a fixed, and predetermined, amount is a comparatively new development in collective bargaining.

What happens in individual companies in these and other industries, however, will vary according to the industry and individual circumstances. As in the past, some companies will give wage increases exceeding the level of the built-in variety; some will give less; some will give no increase, and wages may even be cut in rare situations where conditions require them.

In general, factory wages and the major negotiated increases—whether of the built-in type or not; whether in union plants or not—have risen at about the same pace over long periods although there have been deviations from one year to another as well as deviations between and within industries over the long period.

Since 1948, for example, the average hourly earnings for employes in all manufacturing industries have risen 59 cents an hour, Bureau of Labor Statistics figures show. Over the same period, the built-in wage increases and cost-of-living escalator in the automobile contracts have accounted for increases totaling 63 cents; the annually negotiated increases in basic steel, 60 cents, and in electrical equipment, 59½ cents, according to a compilation by the Bureau of National Affairs, Inc., a technical reporting service. (The BNA figures do not take into account additional increases given in some instances to skilled workers. These might raise the total a cent or two.)

Yet, the average hourly earnings have, over the same period, risen 88½ cents an hour in steel and almost 73 cents in automobiles—considerably more than the negotiated increases—and about 54½ cents, or less than the negotiated increases, in electrical machinery, not counting increased fringe benefits.

The difference between the average straight-time hourly earnings in industries like automobiles and steel, and the amount of hourly-rate increase called for in the contracts results, at least in part, from the increasing number of workers in higher-skill jobs paying more money; the increasing use of night shifts and the rise in extra pay for night work; the shift of workers from lower-pay to higher-pay plants as automobile and other companies expand production, and in increased incentive earnings, particularly in steel mills.

In industries where wages are negotiated annually, increases are more likely to reflect fluctuating business conditions. In boom years, such as 1955, negotiated increases may exceed the built-in variety. In less prosperous years they may run behind.

Last year, for example, built-in wage increases averaged around five or six cents an hour, according to BLS Commissioner Ewan Clague, while the average increase for all hourly earnings in manufacturing was about ten cents an hour. Supplemental unemployment pay plans added another five cents an hour in costs for some companies.

"It is apparent," Mr. Clague told NATION'S BUSINESS, "that the actual settlements in 1955 ran higher than the deferred wage increases, not considering the costs of any supplementary wage practices."

meet crisis

American capital investment in British industry is more than \$1,250,000,000. Here's what it means to the British and to U. S. businessmen

Henry Ford II, *shown in Dagenham plant of Ford Motor Company Ltd., biggest in Europe, plans \$200,000,000 expansion to be completed in 1959*

GM President *Harlow Curtice (center) inspected subsidiary Vauxhall Motors Ltd., last fall. Vauxhall plans to make \$85,000,000 expansion by 1958*

LONDON—There's a boom in Britain for many of the most famous names in American manufacturing. From Kellogg's Corn Flakes to Playtex girdles, from Max Factor to International Harvester, U. S. brand names are becoming as well known in Britain as in America.

More important to the English, the 400 American subsidiaries are helping Britain meet the economic crisis brought on by a continuing excess of imports over exports. The American firms are doing more than their share to bring in foreign exchange. And they are profiting handsomely from it.

The British Board of Trade realizes that the country can gather life-saving trade lessons from us. Thus it encourages certain select American firms to set up branches in the United Kingdom.

So, since 1950, the American capital involved in British industry has increased by 50 per cent, and, at the end of 1955, exceeded \$1,250,000,000.

This is larger than our investment in any other European country, and the third biggest U. S. foreign investment in the world. Only Canada, with \$6,000,000,000, and oil-rich Venezuela, with \$1,400,000,000 in U. S. capital, are greater.

The American firms most helpful to Britain have been auto and truck makers, auto parts suppliers, tractor and farm implement manufacturers, oil and gasoline processors, refrigerators and washing machine fabricators, plastic and drug firms.

The largest piece of American capital in Britain, as in Germany, is in motor manufacture and related industries. Both General Motors and Ford have huge plants here, the Ford plant being the biggest auto factory in Europe. Together, Ford and Vauxhall (the British GM subsidiary) put out about 37 per cent of all the cars made in Britain. Both firms send more than half of their output into the export market.

Subsidiaries of American tire manufacturers supply more than half of Britain's market, domestic and foreign. Firestone and Goodyear are the biggest. U. S. Rubber entered the field last year.

In oil, Esso has built the largest refinery in all of Europe at Fawley, near Southampton.

All of these companies are expanding at a spectacular—for Britain—rate, and so are related firms that supply them; for instance, Hughes Tool and Chicago Bridge.

Even those Americans firms concerned primarily with the British domestic market can and often do help indirectly to conserve British gold and foreign exchange reserves. By assisting Standard Oil to set up the Fawley refinery, British officials estimate they are saving England \$2,000,000 a week in foreign exchange. That's what the British would have to spend to import extra finished oil products and gasoline if the refinery had not been built.

Especially this year, after the trade decline of 1955, the British are interested in bringing in American firms. However, they have been careful to pick only the companies which can be of maximum utility. Many others have been kept whistling in the waiting room for months and never given a go-ahead.

Furthermore, the British officials kept close check of profit remittances to the U. S. So most subsidiaries feel bound to plow *(Continued on page 95)*

◀ *These familiar names represent some of the many firms which make the U.S. investment in Britain the third largest in any foreign land*

400 U.S. firms help Britain

magnitude—shows that in 1939, the last normal prewar year, $6,900,000,000 of installment credit was extended and the total outstanding was $4,500,000,000. By 1955 the corresponding figures were $37,200,000,000 and $27,800,000,000. Both of these totals grew considerably faster than disposable personal income in current dollars (the consumer income available for spending) which rose from $70,000,000,000 in 1939 to $269,000,000,000 in 1955. In 1955, installment credit granted was 27 per cent larger than the 1954 total, while disposable income increased six per cent.

The rapid rise in installment credit has been accompanied by a progressive easing of terms. Competition in the terms of credit has developed and intensified as businessmen have tried to enlarge or protect their markets. Retailers have become increasingly willing to tailor their terms to what the customers want to pay each month. This has been particularly prevalent in the automobile market. In the past few years department stores and the large mail order houses changed their method and philosophy of extending installment credit. Their innovations have liberalized credit greatly and accelerated the trend, which reached a peak in 1955, toward stretched out terms in the market for durable consumer goods—furniture, appliances, and TV sets.

Among these innovations are the revolving budget plans and quantitative installment credit plans. A host of catchy labels are attached to these plans—Permanent Nest Egg, Continuous Budget, Budget Power, Everready credit, Revolving Charge, etc. These new plans which standardize terms and "pre-authorize" credit renewals encourage customers to obtain and maintain larger balances for longer periods.

Commercial banks, too, have entered the field so aggressively that on May 12, 1955, President J. Erickson of the Federal Reserve Bank of Boston felt it necessary to write to all commercial banks in the First Federal Reserve District: "It has come to our attention that some banks in this district, as in other parts of the nation, are relaxing down payments and extending maturities on time sales. We believe that these developments may work against the maintenance of a high level of economic stability. We therefore strongly urge those banks which have been easing terms to exercise greater caution in setting their terms on consumer loans."

The President and his economic advisers have made clear their position on the government's power to regulate installment credit: "Standby power would be desirable and Congress should study the problem of restoring it."

This poses one and possibly two difficult sets of problems:

Not only must Congress decide whether to grant or deny standby controls over installment credit but, if the decision is affirmative, it must decide who is to administer the regulation and how it is to be framed.

Any decision on the regulation of installment credit should be based upon a careful weighing of the arguments for and against, evaluation of our experience under previous regulation, and an appraisal of what we know and don't know about the economics of consumer credit and its effects on the economy.

The first problem—framing the regulation—is probably easier to resolve, because we have the record of Regulation W (the previous instrument of regulation) to serve as a guide. This regulation was enacted within the framework of temporary emergency wartime powers. "Control over Consumer Credit" was first imposed in 1941 by an Executive Order of the President under authority of the 1917 Trading with the Enemy Act. This control, commonly known as Regulation W of the Board of Governors of the Federal Reserve system, regulated the terms of consumer credit during 1941-47 and again in 1948-49. The most recent round of this regulation was enacted during the Korean emergency from 1950-52, under the powers of The Defense Production Act of 1950.

The second problem, deciding under what agency to place the power to regulate installment credit and who is best qualified to write and implement it, is less easy. Inasmuch as the Board of Governors of the Federal Reserve system administered the previous control there is a strong argument for placing it under the Board's supervision again. It has had the experience of regulating consumer credit and, as a matter of course, keeps tabs on consumer credit as part of its general surveillance of credit and the money market. The Federal Reserve is the country's prime source of consumer credit statistics and analysis.

There may be, however, a convincing case for establishing the regulation of installment credit outside the Federal Reserve system—perhaps in an independent agency. If consumer credit is to be regulated because of its influence on the strategic durable goods industries, those delegated to regulate it may need special knowledge and insight into the manner in which fluctuations in consumer expenditures affect these industries.

Should there be standby controls? If so, in what form and who should administer them?

They will have to assess the impact of installment credit on sales, production, inventories, investment, expectations, etc. They will need to interpret and integrate the Federal Reserve statistics; expenditure, inventory, income, and production data from the Department of Commerce; price, wage, and demand data from the Bureau of Labor Statistics; and findings of various nongovernmental research organizations. An independent regulatory agency might be in a more favorable position to draw on the counsel of all the various government agencies watching the state of the economy—the fiscal and monetary authorities, the Labor and Commerce departments, the Council of Economic Advisers, and others.

Moreover, although Regulation W may serve as a model for the proposed standby regulation, many new and broader problems will have to be faced. Initially Regulation W covered all installment credit, sale and loan, extended for a broad list of durable and semidurable consumer goods. It then was broadened to include all the remaining categories of consumer credit except mortgage credit, later controlled by Regulation X. The most recent round of Regulation W covered installment credit for only a limited list of durable consumer goods.

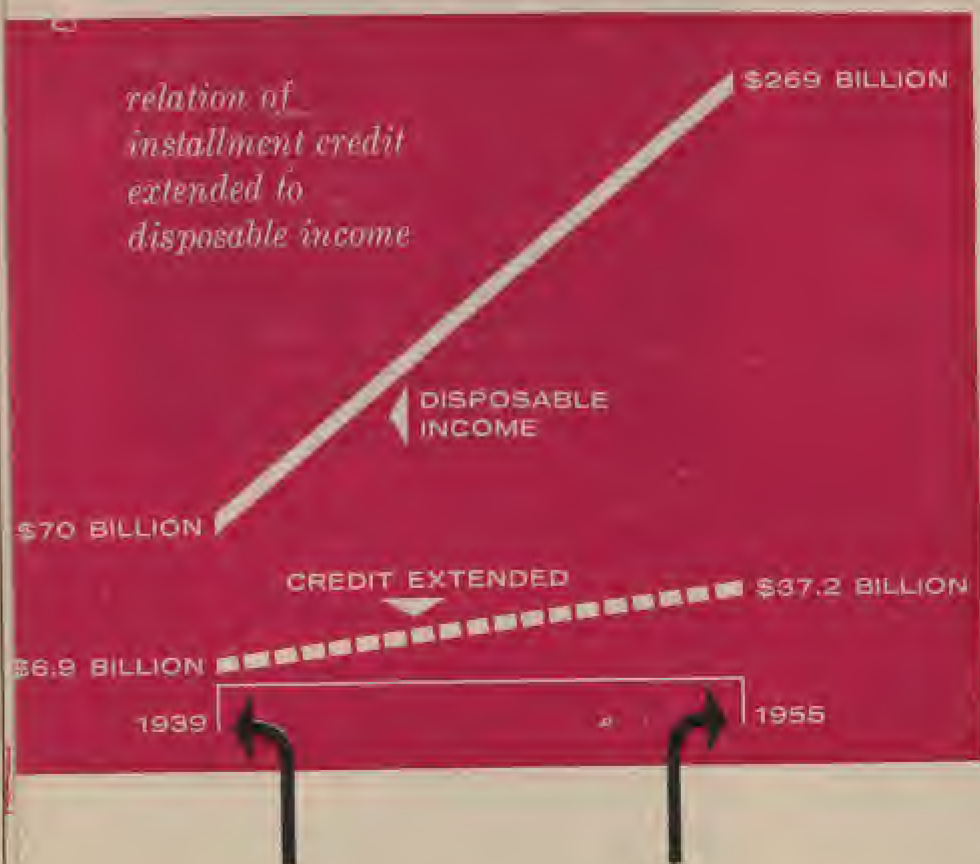
This disparity between extended coverage and limited coverage poses a first problem—what goods should be listed? Will it be advisable to include all the products of the durable consumer goods industries which show a "marked tendency to fluctuate?" Perhaps open book credit for these goods should also be regulated so as to minimize any evasion.

Regulation W set minimum down

(Continued on page 51)

? SHOULD THE GOVERNMENT BE YOUR CREDIT MANAGER

The President's emphasis on the desirability of control of consumer credit raises a fundamental question. Here is how those for and against the proposal would answer it



In 1939, installment credit extended was **9.9** per cent of disposable income

By 1955, installment credit extended had risen to **13.8** per cent of disposable income

CONSUMER installment credit—the money borrowed to buy a large share of the nation's output of automobiles, major appliances and home furnishings—is facing control.

In 1955 it broke all expansion records and terms were the most liberal on record. Concerned over this development, the President, in his Economic Report to Congress, asked for standby power to regulate the terms of installment credit. This request raises a fundamental question:

Does economic stability require the direct regulation of the terms of consumer installment credit to supplement the Federal Reserve's powerful general controls over credit?

Such regulation would permit the government to influence a large proportion of retail sales.

Department stores, for example, have shown a steady and substantial rise in their installment credit sales.

A large mail order house and retailer reports that more than 40 per cent of its sales are installment sales.

Latest figures indicate that almost 60 per cent of all furniture, television sets, refrigerators and washing machines are bought on time.

Some 72 per cent of new autos were sold on credit in the third quarter of 1955.

An increasing share of soft goods and services are also sold on time.

A good share of the $6,000,000,000 rise in 1955 over 1954 of expenditures for durable consumer goods was probably induced by the availability of liberal credit.

Such controls as the President asks have been employed in the past principally to combat inflation under emergency conditions or their aftermath rather than to even out cyclical swings in the economy. The only exception to this, a minor one, has been the Federal Reserve's continuing regulation of credit used to buy securities on margin.

In his message the President singled out what is probably the most important reason for concern over last year's spurt in installment credit—the tendency of installment credit to accentuate fluctuations in the buying of durable consumer goods. According to the President, the industries producing these goods are the very ones which show a "marked tendency to fluctuate" and are increasingly important in our economy. Experience has demonstrated, he asserts, that the authority to set the terms of credit (minimum down payments and maximum time to pay) would be "a useful adjunct to other stabilizing measures."

Installment credit picture

A brief look at the statistics of installment credit—their growth and

outlook


AUTHENTICATED NEWS

GOVERNMENT SPENDING

Spending for defense is creeping upward. The budget calls for $35,300,000,000 for the Department of Defense as compared with $34,500,000,000 in 1956. Principal increases are for Air Force procurement and military public works.

In support of these increases Defense Department officials point to the need for further modernization of the Air Force, more guided missile sites, further construction of the radar attack warning system.

Few can quarrel with the judgment of the experts in these fields. But there is ample room for savings elsewhere in defense spending.

The Hoover Commission proposed better procurement methods that should save large sums, but the Pentagon apparently has been reluctant to act.

Sizable savings also could be made if the Defense Department were to drop some of its business-type activities which compete with private enterprise. Here the Department has been willing to act but Congress interposed a roadblock last year in Section 638 of the 1956 Appropriation Act.

LABOR

The governing board of the International Labor Organization is now conducting in Geneva discussions which may determine the future status of the communist employers in the ILO.

It was ILO's unwillingness to take steps to eliminate the fiction of communist employer representation in the supposedly tripartite organization which led W. L. McGrath, Cincinnati businessman who served as employer delegate to ILO for 1954 and 1955, to recommend that U. S. employers refrain from further participation.

His recommendation led the Board of Directors of the U. S. Chamber of Commerce to call for an immediate and thorough congressional investigation into ILO activities and structure to determine whether the United States should remain in or get out of the organization.

The Board authorized continued participation by United States employers in 1956 pending the outcome of the congressional investigation and determination of the desirability of continued United States participation.

NATURAL RESOURCES

Atomic and jet-age metals like zirconium, hafnium, beryllium and thorium are passing from limited government production into commercial production by industry.

The Atomic Energy Commission, for example, has a contract with the Carborundum Metals Company, Inc., Akron, N.Y., for delivery of 200,000 pounds of zirconium and 4,000 pounds of hafnium per year, and plans to solicit proposals for delivery of 2,000,000 pounds of zirconium over a five-year period along with as much hafnium as can be produced from the zirconium ores. Still more will be required for privately financed nuclear power projects.

Similarly, AEC is asking private industry to submit proposals to supply reactor-grade beryllium metal in the amount of 100,000 pounds annually over a five-year period.

TAXATION

Once again we have proposals for a more progressive corporate income tax. Senator Fulbright, and others, recently introduced two bills which would reverse the corporate normal tax (now 30 per cent) and surtax (now 22 per cent on income above $25,000), and add one per cent to the resulting surtax to make up for revenue lost by the inversion.

While it is purportedly a proposal to aid small incorporated business, its opponents already declare it would have an entirely unfortunate effect by invoking a theory of penalty taxation based upon ability to produce. The proposal also would further aggravate the tax burden discrimination between individual recipients of dividend income.

Fortunately, the political situation is not likely to encourage adoption.

Congress must act on extension of the Korean increases in the corporate income and excise taxes before April 1. So radical a departure as is proposed would require extended hearings and fiery debate which time does not permit.

TRANSPORTATION

Although the transportation industry is booming, investors will do their future buying on the selective basis of individual company performance, not on industry prospects. Finley Iseman, Merrill Lynch, Pierce, Fenner & Beane economist, made this prediction at a Chamber of Commerce transportation outlook conference in Washington.

He felt selective buying would be especially noticed in rails and airlines. Seen as affecting the rails' future are higher wage demands, the drain of money-losing passenger routes which they are not being permitted to discontinue, and the need to spend large sums to keep up with technological progress.

Airlines have the brightest future of all carriers. Now recognized as a sound investment, several lines have been able to get long-term loans from insurance firms on better terms than ever before.

Increasing cargo business is seen as further strengthening airlines.

Investment opportunities in truck lines are few. But high operating ratios, the problems of varying state taxes, dimension restrictions, and competition from unregulated trucks cloud the highway carrier's future.

HOW'S BUSINESS? today's

An authoritative report by the staff of The Chamber of Commerce of the United States

AGRICULTURE

There is reason to doubt that the soil-bank approach will make any really basic contribution to the problem of adjusting farm supplies and output to current demand. Originally, the acreage reserve part of the Administration's soil-bank plan provided for the sale of the government's surplus stocks of farm commodities as a substitute for production from the retired acres. This sale proposal is apparently now dead. Senators drafting the legislation feared that feeding CCC stocks into the market might depress prices, at least in the early stages.

As a result, the plan's price-lifting effects, if any, will depend almost entirely on how effectively the soil-bank action reduces total output.

There is, moreover, strong and persistent pressure in Congress to require or force the U. S. Department of Agriculture to dispose of CCC stocks. If this takes the extreme form currently being pressed, it could scarcely avoid pushing prices down.

Furthermore the question of returning to 90 per cent mandatory price supports is just about a toss up. If these requirements, and other price-supporting proposals for nonbasic commodities find their way into final law, price-depressing effects of the surpluses seem certain to make hash of anything done to lift farm prices.

CONSTRUCTION

Congressional activity on a national highway program centers in the Fallon bill which authorizes completion of the interstate highway system while continuing, at an accelerating rate, the regular federal-aid program.

Financing the program is provided by a separate bill calling for increased highway user taxes. This bill is expected to be incorporated with the Fallon bill in the course of the House debate.

The pay-as-you-go principle has the approval of four out of five of the United States Chamber's organization members who declared in a referendum that additional federal funds needed to finance the interstate system should be obtained to the maximum extent feasible from current revenues. If these are insufficient, additional funds should be obtained from one or both of the following: reasonable and equitable increases in excise and motor fuel taxes upon highway users, and bonds issued within the statutory federal debt limit.

CREDIT & FINANCE

Remember Regulation W? There is much talk now of the need for more vigorous controls over consumer credit, at least on a stand-by basis.

The President has recommended that Congress and the executive branch study the problem, although he does not feel that present conditions indicate need to regulate the terms of installment credit.

At the end of December, 1955, total consumer credit, aside from home mortgages, was $36,225,000,000. Mortgages reached $87,000,000,000. This represents a rapid rise during the year; mortgages up more than $11,000,000,000 and other consumer credit up $6,100,000,000.

General Federal Reserve controls over credit were increased repeatedly last year but appeared to have little effect on installment buying.

Now discussion is progressing to credit terms and repayment periods.

Regulation W, however, is still a potent memory and in this election year no action is likely unless the situation appreciably worsens.

DISTRIBUTION

Preliminary data on the 1954 Census of Business, now being issued by the Bureau of the Census, will be of particular significance to the distribution field because of their many applications to problems of marketing, selling and advertising.

Also, analysis of this data will reveal some of the major changes that have been taking place in the distribution picture since 1948. For example, in many fields and areas, the number of retail establishments has decreased while total sales have increased, indicating a definite improvement in efficiency.

For the first time businessmen will be able to measure the extent of the movement to the suburbs and its impact on downtown areas. For selected cities reports will include information on the central business district and the central city as well as for the standard metropolitan area.

To illustrate, preliminary figures show that in Dallas, Texas, total retail sales in the central city increased 49 per cent between 1948 and 1954, but for the remainder of the metropolitan area, sales increased 100 per cent.

FOREIGN TRADE

The National Foreign Trade Council, Inc., forecasts that, barring changes in the world political situation, United States' foreign trade this year will exceed the record set in 1955 by roughly four per cent. Some analysts consider the Council's estimate overoptimistic, but with the strongest upsurge in trade coming in the closing months of 1955, it appears likely that the high volume might well continue into the first half of 1956, although a leveling-off trend may then develop.

By all standards, 1955 was a record year for U. S. foreign trade. On the basis of provisional U. S. Department of Commerce trade data, the combined value of our commercial exports and imports approached $26,000,000,000, a gain of roughly 12 per cent in value over 1954. Basic factors in the boom were the unequaled economic activity of this country, and the continued rapid expansion of production and trade overseas.


FAIR TRADE'S FUTURE FACES COURT TEST

The Supreme Court will hear arguments in a few weeks on a vital point involving fair trade agreements. How it rules could be most important to you. Here's why

THE FAIR-TRADE laws will face their most critical period this spring.

The reason is that the case of the *United States vs. McKesson & Robbins, Inc.* is slated for argument before the U. S. Supreme Court in April, and a decision is expected before the court adjourns.

If the decision goes against the drug company, fair trade may, for all practical purposes, be dying.

What is the McKesson case all about? Insofar as its essence can be distilled into a single issue, it is this:

Does a manufacturer-wholesaler who enters into fair-trade agreements with other independent competing wholesalers violate the price-fixing prohibitions of the antitrust laws? Or are such agreements privileged under the federal fair-trade statutes?

The U. S. Department of Justice says that such agreements are violations *per se* of the antitrust laws and are not removed from the realm of antitrust by federal fair-trade sanction. The company claims that its agreements with other wholesalers are authorized by state fair-trade laws as backed up by federal fair-trade laws.

What makes the McKesson & Robbins case so important?

Although the legal issue in the case as argued by the government is a narrow one, there are at least four reasons why the scheduled case will affect nearly all fair-trade businesses as well as virtually all consumers.

1. The McKesson & Robbins case comes at the tag-end of a long line of setbacks which fair trade has suffered in the past few years. For example, court decisions in six states—Arkansas, Florida, Georgia, Michigan, Nebraska and Utah—have either ended or seriously limited the effectiveness of fair trade in those areas. Thousands of discount houses have sprung up all over the country, making fair trade difficult to enforce. Some manufacturers, such as Westinghouse and the Shaeffer Pen Company, have given up on the whole idea. Others are following suit. One more severe body blow to fair trade, such as a Supreme Court holding adverse to McKesson & Robbins, could be the straw to break the camel's back.

2. The drug industry is and always has been one of the major fair-trade industries. McKesson & Robbins, doing something like $350,000,000 worth of business a year, represents one of the strongest fair-trade bastions.

3. The type of fair-trade agreement which is under fire in the McKesson & Robbins case is depended upon by many other businesses which fair-trade their products. That is, many fair traders are both manufacturers and wholesalers, as is McKesson & Robbins, and have similar price agreements with independent wholesalers. If this kind of contract is outlawed, the effect will be widespread.

4. In the main, McKesson & Robbins is basing its legal defense upon a broad argument. It claims that its wholesale contracts come within the legal sanction of the federal fair-trade laws. So a decision adverse to McKesson & Robbins might easily be interpreted as delimiting the scope of the federal fair-trade laws in such a way as to make them obsolete for all practical purposes.

Let's take a brief look at fair trade.

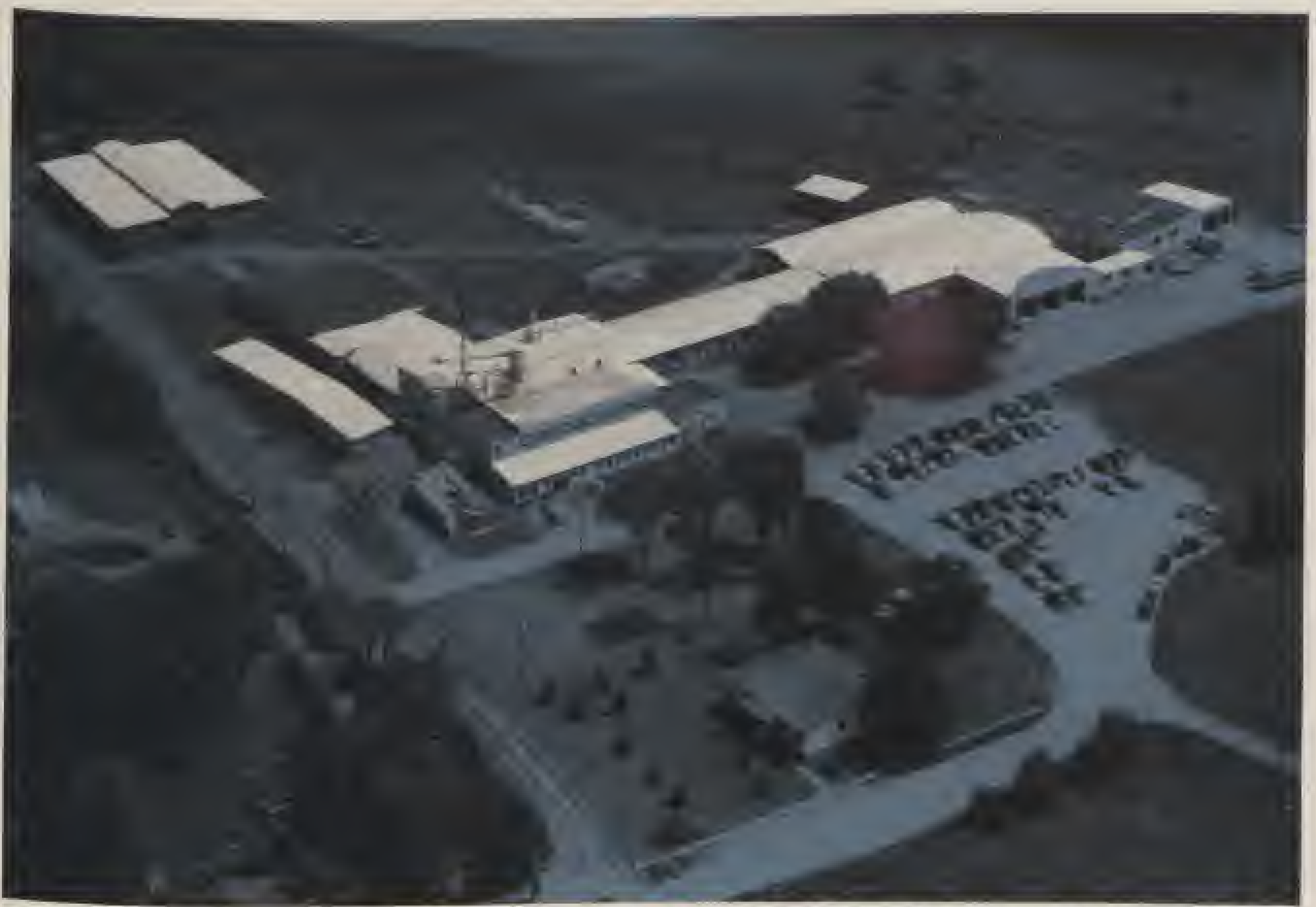
Boiled down, fair trade is a system under which brand-name producers of nationally advertised goods are allowed to fix minimum resale prices in agreements with wholesalers and retailers. The legal sanction for such agreements comes initially from the the states. California in 1931 led off with the first modern fair-trade law. Today all states except Missouri, Texas and Vermont, and the District of Columbia, have such laws.

Estimates of the per cent of the total national retail business which is fair-traded range from $5,000,000,000 to $40,000,000,000 annually, with the average guess at around $13,000,000,000 or $14,000,000,000, which is about eight or nine per cent of all U. S. retail sales.

The state laws, which are generally uniform, permit what is known as vertical price maintenance; that is, agreements to maintain minimum prices between manufacturer and wholesaler, manufacturer and retailer, or wholesaler and retailer. They do not permit price maintenance between manufacturers, between wholesalers, or between retailers. The latter sort of agreements is considered to be a restraint on competition and violative of antitrust theories.

When fair-trade agreements began to cross state lines and legal doubts of their validity ensued, Congress in 1937 passed the Miller-Tydings Act which permitted interstate fair-trading and specifically exempted fair trade (within limits) from antitrust laws.

In 1951, however, the Supreme Court, in the "Schwegmann Case," prohibited enforcement of the fair-trade laws on an interstate basis against wholesalers and retailers who refused to sign price-maintenance agreements. Subsequently in 1952 Congress amended the Miller-Tydings Act with the McGuire Act



Newly enlarged plant of Wisconsin Window Unit Company, manufacturers of R. O. W. Window Units, Merrill, Wisconsin. This is one of two plants where the roofs are completely protected with Tenkote Aluminum Roof Coating supplied by American Asbestos Products Company, Cleveland 2, Ohio.

Tenkote Aluminum Roof Coating gives this roof top protection

Plant cooler in summer, warmer in winter, reports Wisconsin Window Unit Company

Aluminum Roof Coating gives this company *top* protection from two standpoints. First, it stops leaks, provides added protection against rust and corrosion. Second, of four plants operated by Wisconsin Window, two are coated with aluminum roof coating and are noticeably cooler in summer, warmer in winter, even in 30 degree below zero weather.

That's because aluminum roof coatings reflect hot summer sun, keep winter heat in. No wonder Wisconsin Window Unit Company has used aluminum roof coating for six years. According to a company official, Aluminum Tenkote definitely does a better job than other materials on the market.

Aluminum roof coatings like this contain asbestos fiber in an asphalt base, and are pigmented with brightly polished ALCOA Aluminum flakes. Once applied, the coating remains firm on top, but soft and pliable beneath its reflective, protective shield of aluminum. This means extra years of life and good appearance.

ALCOA does not make roof coatings, but we will gladly refer you to reputable manufacturers who do. Write today for our FREE booklet, *Aluminum Asphalt Roof Coatings Make Time Stand Still.* Use the coupon.

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which okayed interstate operation of fair-trade laws even against nonsigners. It also authorized the fair-trading of retail sales from state to state.

The Supreme Court accepted the McKesson & Robbins case after refusing to hear eight prior fair-trade cases.

Regardless of its decision in this case the Court's action will not be an enforcement of, or a refusal to enforce, a fair-trade agreement. It will determine only if the McKesson & Robbins fair-trade agreement is of the type authorized by federal statute. Enforcement under the fair-trade laws is up to the manufacturer initiating the agreements.

Nor will the Court's action involve a penalty. The government did not bring the case under the criminal code; it is not alleging willful violation of the antitrust laws. Its action is designed only to test the meaning of a particular federal law, the McGuire Act. The worst that could happen directly to McKesson & Robbins would be an injunction against some of its present wholesale agreements.

Now for a closer look at the McKesson situation.

McKesson & Robbins conducts a nationwide wholesale drug business. It operates 74 wholesale drug divisions in 35 states. By far the larger part of the merchandise it handles is made or provided by other concerns. However, McKesson & Robbins also manufacturers its own brand of merchandise and has a plant in Bridgeport, Conn., which puts out drugs, pharmaceuticals, cosmetics and toilet preparations. McKesson & Robbins the manufacturer and McKesson & Robbins the wholesaler are one firm, a single corporation.

All the current legal shouting involves the products which McKesson & Robbins itself produces and fair trades. It works this way:

McKesson & Robbins manufactured products reach the consumer in three different ways: 1, through the company's own wholesale division and from there to the retailers; 2, directly from the manufacturing division to the retailers; 3, through independent wholesalers and from there to the retailers. Products passing through all three channels are fair-traded, that is, distributed on the basis of agreements between all wholesalers and retailers to maintain minimum prices on McKesson & Robbins products.

The government contends that since McKesson & Robbins is a wholesaler as well as a manufacturer, it is engaging in illegal horizontal price-fixing when it fair-trades its products through the independent wholesalers.

It bases its contention on a restricting clause which appears in both the Miller-Tydings and McGuire Acts:

"Nothing (in this Act) shall make lawful contracts or agreements providing for the establishment or maintenance of minimum or stipulated resale prices on any commodity . . . between manufacturers, or between producers, or between wholesalers, or between brokers, or between factors, or between retailers, or between persons, firms or corporations in competition with each other."

McKesson & Robbins' agreements, says the government, are clearly price-maintenance contracts "between wholesalers . . . or between persons, firms or corporations in competition with each other."

McKesson itself charges that this is an unduly narrow and technical interpretation of the Act and, if followed, it would exclude from the law's protection a big part of the industry which Congress sought to protect by eliminating price cutting on brand products.

McKesson & Robbins won the first round of the argument at the district court level.

The key to the case, so far as the district judges were concerned, was the fact that the government had failed to prove any serious restraint on competition by McKesson & Robbins. Said the court:

"Since every fair-trade agreement made by a producer . . . necessarily restrains competition, the true test of legality in the situation of the producer-wholesaler of dual capacity is whether some additional restraint destructive of competition is occasioned."

Justice Department lawyers contend that any restraint of this kind is illegal unless specifically authorized by the Miller-Tydings or McGuire Acts. If not so authorized, they argue, then the restraint is illegal.

All this is highly legalistic, but the theory that the degree of competitive restraint should be the test of fair trade validity is bound to be a crucial part of the argument before the Supreme Court.

What sort of decision might the Supreme Court make? And what would be the consequences?

Here are some possibilities:

The Court might outlaw any fair-trade agreement between wholesalers regardless of the nature of the wholesaler or the amount of competition restrained. This would be the broadest kind of a ban and would seriously cripple fair trade as we have known it.

It could ride along with McKesson & Robbins' theory that its kind of agreements come within the spirit of the McGuire Act. Such a holding, if not otherwise qualified, would amount to strong judicial sanction of fair trade.

Between these two extremes, any number of qualified decisions could be made. For example:

► A formula might be spelled out whereby agreements of the McKesson & Robbins type would be illegal if the company using them were primarily a wholesaler, but legal if the company were primarily a manufacturer. Total effect of this kind of decision would be much less than if all agreements between wholesalers were outlawed. This is because most manufacturer-wholesalers are more producer than wholesaler.

► The test for determining whether an agreement between wholesalers was valid might be defined as a matter of substantial horizontality. In other words, if the agreement seemed to be horizontal to a substantial degree, it would be illegal; otherwise it would be valid. Of course, it would then be up to the courts to determine in any given case what amounted to a substantial degree.

► The Court might permit agreements made between a manufacturer-wholesaler and other wholesalers in cases where the former distributed only its own products.

► The McKesson & Robbins-type agreements might be allowed to stand unless they were entered into with concerns of the same dual characteristics. That is, they might be prohibited only if both parties to the agreement were manufacturer-wholesalers. This would be unlikely to have much effect on present fair-trade practices.

► The Court might limit itself to approval of the district court's theory and hold that McKesson & Robbins-type agreements are illegal only if it can be shown that they result in extraordinary restraint on competition. This is a variation of the "substantial degree" theme, and it would seem to put the burden on any plaintiff to prove that the agreements were actually, rather than potentially, destructive of competition. Of course, this would be difficult and would favor the fair traders.

► The Court might say that the McKesson & Robbins-type agreements are legal in cases where the manufacturing and wholesaling divisions of the company are separately incorporated—and otherwise illegal.

—Philip Yeager & John Stark

CREDIT

continued from page 43

payments and maximum maturities for installment credit extended for the listed articles. Both seem to have been equally restrictive on the use of credit. What standards of severity should govern the setting of terms under any proposed regulation? Perhaps down payments should be more restrictive than maturities, as in England where somewhat greater emphasis seems to be placed on the down payment requirements than on maturities.

To supervise credit extensions, Regulation W required every firm extending credit to register with the Federal Reserve Bank of its district. The Regulation required that a credit customer be given a written contract stating the terms, a description of the article purchased, its price, the down payment, the deferred balance, the cost of insurance or any discounted finance charge, and the total balance owed. Some similar provision for supervision will have to be included in any new regulation. Enforcement methods of any new regulation will depend in part upon the kind of contract provisions stipulated, if any.

One novel method of control would require regulation at the wholesale level. The regulating agency would supervise only institutions which lend money (for any purpose) to firms extending installment credit. These lending institutions would in turn be required to withhold funds from any firms violating the provisions of installment credit regulation. Such a plan might be more difficult to administer than would appear at first glance, because firms extending installment credit obtain credit from many sources.

A wholesale level approach based on central bank suasion is employed in Australia where private banks have agreed not to grant further overdraft facilities to installment credit companies and to reduce outstanding overdrafts where they can.

Although our consumer credit statistics are excellent and much has been found out about the nature of consumer credit, the way it is used, and how it is affected by regulation, we need to know a great deal more about its effects on economic activity and its control.

Research on the experience under Regulation W shows that tightening or easing terms does influence the volume of installment credit and, roughly, by how much.

We don't know, however, the extent to which this affects actual expenditures on consumer goods, durables in particular. We also have reason to believe that the impact will differ considerably depending upon the phase of the business cycle in which the terms are varied. These are questions for which quantitative answers may be a long time in coming. Perhaps if we knew how the growth of consumer credit shapes the pattern of consumption expenditures, we might expect more ready answers to the problems of regulation. It is of course possible that the mere establishing of stand-by controls will by itself limit the use and availability of installment credit.

We also need answers to some vital questions about the cost of credit both on the demand and supply side. The pivotal problem is, of course, to what extent, if at all, can a tight money market created by the traditional instruments of monetary policy curtail the supply and use of installment credit.

A related question is, how does the direct cost of credit (the finance charge or discount) affect consumers? It is generally believed that this has little or no influence on consumers' demand for credit. A bit of recent evidence indicates, however, that users of credit may be becoming somewhat more aware of its cost. It would be extremely difficult to obtain any figures on the effect of finance charges on the demand for installment credit. We don't even have any systematic or reliable periodic figures on finance charges.

Final decision on whether or not to institute standby controls over installment credit must be made on the basis of a careful evaluation of the arguments for and against regulation.

Arguments for regulation

One of the strongest arguments for installment credit regulation is used by the President in his Economic Report. It is based upon the fact that the demand for consumer durables fluctuates widely with changes in the level of consumer income—much more widely than the demand for other types of goods and services. This measure of the sensitivity to income changes—called income elasticity—has been studied extensively by government statisticians.

Installment credit, according to many experts, accentuates this tendency to wide swings in the sales of consumer durables, swings which are quickly reflected throughout the economy and affect the level of business activity and long term growth. This is behind the thinking of those who allege that excessive credit causes demand to be borrowed from the future—"stealing demand from

the future." It follows, then, that the regulation of installment credit should be used to even out the fluctuations in the consumer durables market and thereby minimize the hazard of widened fluctuations throughout the economy.

Some recent data of psychologist-economist George Katona suggests part of the explanation for the high income elasticity of durables. He found that no other group goes into debt as frequently as those who anticipate income increases. In a period of rising income this group is especially large and correspondingly active in the market for consumer durables.

Monetary policy is one of the government's principal anticyclical weapons. It is used to stabilize the economy along with fiscal policy and an array of countercyclical built-in stabilizers. Some argue that it is desirable to employ installment credit regulation in conjunction with monetary policy.

Why? Allan Sproul, president of the Federal Reserve Bank of New York, argues that it is difficult to control installment credit by the general controls over credit without "adversely affecting all of the less avid users of credit. . . ."

This position has on occasion been labeled the shot gun versus the rifle approach. Direct control of credit permits, its supporters say, a precision, immediacy, and flexibility which often cannot be achieved by monetary policy alone. It can be aimed at the precise points where too sharp an expansion is occurring.

Mr. Sproul's position implies that installment credit lenders are relatively insensitive to moderate increases in interest rates. This is substantiated by reports that installment credit suppliers obtain a considerable share of their funds outside of the banking system where the sensitivity to interest rate and reserve ratio manipulation is relatively low. Another factor which tends to weaken the influence of higher money costs is that the cost of the funds is only a modest share of the total costs of extending installment credit. Interviewing, routine processing, collection, and other business costs are predominant.

How much the growth of consumer installment credit contributes to cyclical instability has been the subject of considerable writing and some research. The findings are often cited to support the argument for control. The rates of expansion of installment debt and expenditures,

it is felt, should be restrained to more sustainable rates of increase.

A leading business cycle authority, the late Joseph A. Schumpeter, early in his writings observed that consumer credit contributes to the swelling of demand for durable consumer goods during an upswing, and in the downswing exerts deflationary pressures due to an excess of repayments over credit granted. Prof. Gottfried Haberler, in a pioneering study of installment debt and the business cycle, published in 1942, found that installment credit tends to accentuate fluctuations in economic activity. He felt that if there was concerted action in many fields "cyclical control of consumer credit should find an important place."

Dr. Albert G. Hart, an authority on business fluctuations, finds that as far back as the 1920's a high level of sales of consumer durables financed in good part by installment credit was a significant prop to the prosperity of that period. Prof. Alvin H. Hansen writes that the 1935-37 cyclical expansion was primarily a result of the demand for durable consumer goods financed by an expansion of installment credit.

Many business analysts maintain that the postwar and Korean spending waves were dependent upon sharp increases in installment credit. Dr. Jules Bachman thinks that consumer debt was the "most important single factor in the 1955 boom."

There has also been concern over the deterioration of the quality of installment credit (a cyclical phenomenon) as the boom has progressed. Thus, Mr. Erickson states, "Easier terms on consumer loans may lead to overextending the financial position of producers, distributors and consumers."

Arguments against regulation

The opponents of installment credit regulation challenge the factual basis of many of the arguments advanced above—the impact of monetary policy on the supply of installment credit, in particular.

An outspoken critic of regulation has been Delos C. Johns, President of the Federal Reserve Bank of St. Louis. He believes there is more than a tenuous relationship between consumer credit outstanding and the supply of credit in general. "Consumer credit may be more responsive to the general instruments (of monetary policy) than we had thought," he asserts. Commenting on installment credit and the business

(Continued on page 58)

maximum or below a reasonable minimum, or below cost, or unjustly discriminatory. Shippers and the public would continue to be fully protected by the ICC against all abuses — including any possibility of a return to transportation "rate wars."

Every kind of freight would continue to "pay its way" on the railroads, which would not be permitted to carry some freight at a loss that would have to be made up on other traffic. Such a practice would be contrary to the laws of economics, of common sense, and of the United States government.

There would be the widest opportunity for all forms of transportation to grow and prosper. Each form of transportation has its own natural market — because each has certain definite advantages over the others. Cabinet Committee recommendations would permit *transportation management* the right to offer the most efficient service possible — and *shippers and the public* the right to choose the one that fits their needs.

Thus, the principal factor in determining the "fair share" of traffic for each type of carrier would be competition, not regulation.

The growing public support for the principles embodied in the report of the Cabinet Committee results from the recognition that they concern not transportation alone, but the vital interests of every one of us. In short, Mrs. Kennedy's five pounds of sugar are *your* five pounds of sugar — and they represent everything else you buy as well.

* * * *

For additional information on the Cabinet Committee report and how it affects the American consumer, write for the free booklet, "Why Not Let Competition Work?"

Association of American Railroads, 920 Transportation Building, Washington 6, D. C.

Mrs. Kennedy's Five Pounds of Sugar

—and why she can't always have it shipped by the most efficient form of transportation

Ding-ding-ding! The cash register at the checkout counter is busy ringing up Mrs. Kennedy's groceries. A sack of flour — three cans of peaches — five pounds of sugar . . .

There's more than food included in every price the cash register rings up. There are distribution costs — *including freight transportation*. Everything Mrs. Kennedy buys — whether it's sugar or a new suite of furniture — must be shipped to her home town by freight. So it's Mrs. Kennedy who pays the freight bill when the cash register rings.

It is to keep Mrs. Kennedy's freight bill — and *yours* — as low as possible that a Cabinet Committee appointed by the President recommended that our national transportation policy be revised. If the whole business seems remote to you, maybe it will become more meaningful if we tell you the story of Mrs. Kennedy's five pounds of sugar.

* * * *

Let's say that Mrs. Kennedy lives in St. Louis. A good deal of the sugar sold in St. Louis comes from New Orleans, where it is refined. Between New Orleans and St. Louis, there are three ways of shipping that sugar — by truck, by barge on the Mississippi River, and by railroad.

Let us assume further that the railroads between New Orleans and St. Louis find that, due to increased operating efficiencies, they can reduce their freight rates on sugar and still make a profit. Obviously, the reduced rate on sugar should benefit everyone involved — the sugar producers, the grocery stores, and finally, the hundreds of thousands of consumers in the St. Louis area like Mrs. Kennedy.

But the proposed rate reduction is never put through. In this imaginary but representative case, the application for the reduced rate may be held up for months and then finally denied by the Interstate Commerce Commission. The railroads are forced to charge a higher rate than would otherwise be necessary. The reason, taken from many ICC decisions, is that the reduced railroad rate would "adversely affect" the competing forms of transportation.

In short, in cases of this kind, government regulation shields the other forms of transportation from railroad competition — *at the expense of Mrs. Kennedy.*

It is precisely this kind of situation which is at the heart of the Cabinet Committee's recommendations for revision of our national transportation policy.

The Cabinet Committee was appointed by the President of the United States to make a "comprehensive review of over-all Federal transportation policies . . . and submit recommendations." The Committee consisted of five members of the President's Cabinet and two other high government officials — men of such outstanding national stature that any suggestion that they would consider only one side of a case is absurd.

The report of the Cabinet Committee was unanimously approved by its members after intensive study, during which the views of all forms of transportation were given full consideration. Among its key findings and recommendations are:

- That government regulation of rates, as presently applied, frequently denies the public the benefits of the most efficient form of transportation — with consequent financial loss to the entire nation.
- That, in the public interest, no freight rate should be kept higher than otherwise necessary, merely to shield some other form of transportation from the effects of fair competition.

The Cabinet Committee recommendations would apply with equal force to every form of transportation, and would give no preferential treatment either to railroads or their competitors.

The Cabinet Committee recommendations, if enacted, would by no means end rate regulation. The Interstate Commerce Commission would still have power to deny proposed rates which would be above a reasonable

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Retailers' favorite "Stop-and-Go" delivery trucks, for saving time and money. Choice of 17 Metro models, from 6,400 to 16,000 lbs. GVW. Quality steel bodies from 7'9" to 12'7", standard or flat-back. Wide variety of door arrangements, and interior options.

The time and space-saving advantages of the low-step *Metro* are now available in this new forward-control "Walk-In" cab, for owners who require specialized separate bodies. Available on SM-160 chassis, with 14,000 to 16,000 lbs. GVW, in 4 wheelbases.

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INTERNATIONAL Trucks pioneered in building the big-space "stop-and-go" truck for retail delivery 18 years ago—and has been first in multi-stop truck sales ever since.

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cycle, Mr. Johns feels. "In times when inflationary pressures are great or when deflation is sharp and protracted, installment credit may be just one more force making for instability in the economy. But . . . instability is a part of the price we pay for the enjoyment of goods which yield their services over time."

Representatives of the installment finance companies argue that, as long as the quality of credit is good (consumers are not overextended as demonstrated by their ability to maintain payments), there is no basis for imposing regulation.

Some experts have taken the position that consumer credit is not a strategic factor in economic fluctuations. In the words of Dr. Clyde W. Phelps, "the influence of installment credit in contributing to recessions or depressions is small, and this is secondary in nature." Dr. Sidney Rolf, economist for Commercial Investment Trust, argues that installment credit is different from other types of credit in its effect on the business cycle because funds are drawn from real savings rather than from the pool of commercial bank credit which he feels is the more inflationary type of credit.

Some economists maintain that direct controls over credit are self-defeating because any attempt to control only one segment of the money market, such as installment credit, releases funds which in turn inflate the markets for the remaining categories of credit A leading spokesman for this point of view is Dr. Lloyd W. Mints, a long time student of monetary economics, who says, "Monetary control is in nature a general, over-all influence. Detailed, specific controls are inappropriate."

Part of the opposition to installment credit regulation has been on the grounds that the direct control of credit is, as it was put by Neil Carothers, ". . . an arbitrary and possibly dangerous interference with private enterprise . . ." In line with this approach, it is argued that the use of installment credit is primarily a household budgeting device and consumers ought to be allowed to do their own budgeting without governmental interference.

Finally, it has been maintained in some quarters that any control such as Regulation W would be extremely difficult to enforce over any extended period. Therefore, the conclusion is, it would be ineffective in other than emergency conditions.

—Harold Wolozin

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CONSTRUCTION

continued from page 33

that industrial building will stay high for some time to come.

During the year, several large industries found that they had been looking at the economy through the wrong end of the telescope. The idea of a normal level of consumption to which capacity ought to be geared is a hazy one, but many companies decided that what they had considered normal was far too low. One spokesman, announcing the expansion of every plant in his large company, reasoned that our economy had begun to operate from a solid base far higher than he and his colleagues had imagined. What had seemed like a peak had turned out to be a plateau with more distant peaks rising above it.

COMMERCIAL BUILDING largest of the nonresidential types, follows the growth and movement of population more closely than industrial building does.

Stores in particular have to be within shopping range of people's homes, and as housing has prospered since the end of World War II, commercial building has tended to follow it. The high levels of home building last year mean that commercial building still has some catching up to do. This and our general prosperity indicate that 1956 will be another record year for this type of construction.

COMMERCIAL and industrial building last year accounted for a little less than half of all nonresidential building. The other half includes what might be called community buildings—schools, churches, institutions, public buildings and the like. There is a sizable backlog of need in every one of these building types.

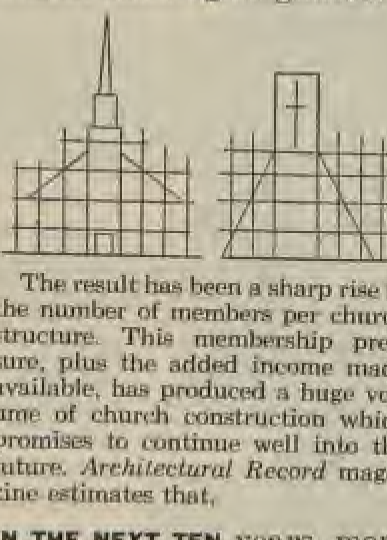
We have been struggling to catch up with our school needs, for instance, for 15 years. Although experts disagree on the exact extent of the problem, some insist that, instead of progressing, we are falling further behind.

We are building schools at a rec-

ord rate, to be sure, but the 18,000,000 children of preschool age in the country now are being joined by brothers and sisters at the rate of 4,000,000 a year. By way of comparison, there are only 9,000,000 of high school age today. What will happen in the next eight years as today's preschool and grade-school children begin to bulge the walls of the high schools? This isn't to imply that the problem is eight years off, because it has been with us for quite a while: it will just be intensified in the years ahead.

The Census Bureau figures that there will be more children in every grade every year through 1960, and the higher grades, at least, will go on increasing long after that. This is not an estimate—the children have already been born. Only one forecast is possible for school construction: It must increase for years to come.

CHURCH BUILDING is having a boom of its own. For many years, during which church membership and church attendance skyrocketed, church building stagnated.



The result has been a sharp rise in the number of members per church structure. This membership pressure, plus the added income made available, has produced a huge volume of church construction which promises to continue well into the future. *Architectural Record* magazine estimates that,

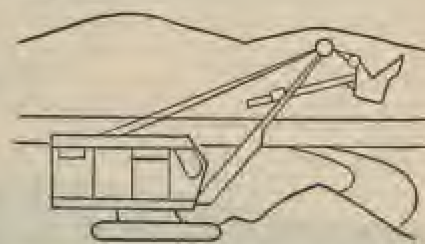
IN THE NEXT TEN years, more than 70,000 new churches will be built, along with 12,500 other religious buildings (not counting parochial schools) at a cost of $7,000,000,000.

Among the many other kinds of nonresidential buildings, there are practically none where the over-all supply meets the demand. Even our criminals have valid reason to complain about overcrowded jails.

There remains one other large category of construction which, in the language of the trade, is not classed as building.

THIS is heavy engineering, consisting of public works and public utilities. This promises to be one of the strong-points of the construction outlook for 1956 and beyond.

Highways are the biggest engineering item. For every car on our streets just ten years ago, there are two today;



and any driver knows that the carrying capacity of our highway system has lagged far behind the traffic. Government officials are talking in terms of a ten-year highway program running to about $100,000,000,000. Considering that this would mean doubling our annual highway outlays almost overnight, and considering that we are already running into shortages of cement, steel and labor, such an expansion is beyond reach for the near future.

BUT there is no doubt that highway programs will expand this year by ten per cent or so and even more in later years.

Like all other construction, utilities and public works will have to expand to meet the needs of a growing and more demanding population.

One limiting factor here is that we have underbuilt our capacity to produce essential materials—a situation which is now being remedied. Another limiting factor is the competition for tax money among the various levels of government charged with public works, and the problem of finding sufficient investment funds for private utility construction. But in an economy expanding as rapidly as ours, neither of these factors will

CONSTRUCTION

continued

prevent a substantial expansion of heavy engineering construction.

In addition to all this new construction, the maintenance and repair market is growing.

The U. S. Chamber of Commerce has estimated that the amount of money spent for maintenance and repair runs to $12,000,000,000 a year for housing alone. A concerted effort of government and private organizations is under way to produce a much larger fix-up program in 1956, under the name of "Operation Home Improvement."

In the minds of virtually all of the industry forecasters, 1956 will be a record year for construction.

The two most comprehensive forecasts are those of the F. W. Dodge Corporation covering contract awards for future construction in the 37 eastern states, and of the U. S. Departments of Commerce and Labor estimating the dollar volume of construction work currently performed. Both forecasts expect a drop in housing activity in 1956, but both foresee an expansion in other types of construction more than sufficient to insure an over-all increase. The estimates indicate contract awards up about three per cent more than 1955, and actual construction work up about five per cent (reflecting in part a carry-over from last year's great increase in contracts). If contract awards hit a new peak, as predicted, this will automatically mean a continued high volume of construction work through 1957 at least.

Long-range, the outlook continues bright. In its forecast for this year, the Dodge organization also surveyed the prospects for the coming decade and concluded that a conservative estimate would be $600,000,000,000 for all types of construction activity (including repair and maintenance) between now and 1965. While this total seems huge, it is actually modest in relation to the prospective rise in national output.

It's a safe bet that in 1965, if we have put only $600,000,000,000 more into construction, we will still be able to point to underbuilding in at least some important categories.

—GEORGE CLINE SMITH

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THIS MAN SHAPES YOUR TAX BILL

continued from page 35

tax relief to the lowest income groups without causing any over-all reduction in federal revenue.

One idea is that revenue loss from bottom-bracket tax cuts might be offset by repealing provisions of last year's law which gave business a more favorable depreciation formula and eased the double taxation of corporate dividends.

Mr. Mills would look with favor on such a proposal if he thought it was feasible. But he recognizes that the amount of revenue which might be saved by repealing the 1955 dividend and depreciation features would be insufficient to cover even a token cut for the little man.

He also knows the Senate won't agree to repealing the 1955 provisions anyway.

To envision the third set of circumstances under which Mr. Mills might sponsor a tax cut, put yourself in the place of a House Democratic leader.

Should you figure that the opposition was preparing to spring a surprise and grab the credit for an election-year tax cut, your instinctive reaction would be to beat them to the punch. It remains to be seen whether Mr. Rayburn, Mr. Mills and their Democratic colleagues will attempt to do precisely that in the next few months.

But it is noteworthy that when they were seized with similar suspicions last year, they rushed through the House a Democratic bill to give everybody a $20 tax cut.

That bill died in the Senate. But it served its real purpose, which was to force Mr. Eisenhower to take a firm, public stand against any early tax relief.

In addition to his skill in tax matters, his general legislative competence, and his political sagacity, Mr. Mills is qualified for a leadership role by the fact that he stands just about half way between the New Deal liberals and the southern conservatives in his party.

So far, he has managed to avoid any close identification with either wing.

"Moderate" and "middle of the road" are badly overworked terms in today's politics, but they are the most adequate description of Mr. Mills' economic philosophy and voting record. His desire to aid low-income families and small business firms (both of which are numerous in his congressional district) is a bond with the liberals; his strong sense of fiscal prudence ties him to the conservatives.

Both traits are reflected, for example, in his attitude toward social security. He strongly supported the Democratic bill, passed by the House last year and now pending in the Senate, to extend social security benefits by making women eligible for retirement payments at 62 and disabled persons at 50. But he also insisted that the measure include a politically unpalatable provision to finance the extra benefits with an increase in the payroll tax from two to 2½ per cent.

"We ought to keep on strengthening social security whenever possible," Mills said. "But we also must keep the program on an actuarially sound basis."

It is his tax philosophy, however, that most clearly stamps Mr. Mills as a moderate.

One morning not long ago, the stocky, amiable Arkansas congressman leaned back in the big leather chair in his office and outlined to a visitor the principles he seeks to apply to tax legislation.

"In the first place," he began, peering over the top of his narrow Ben Franklin glasses, "I believe that the function of taxation is to raise revenue. That may sound obvious, but I say it to make clear that I don't go along with economists who think of taxation primarily as an instrument for stimulating, braking or otherwise manipulating the economy.

"But I do believe that, when tax rates are as high as they are now, we must take into account the fact that any changes we make inevitably will have far-reaching economic effects."

Ideally, Mr. Mills went on, federal taxation should be "as nearly neutral as possible in its over-all economic impact." That is, it should tend to "create an atmosphere of equal opportunity for steady economic growth and expansion."

It should not favor certain segments of industry (as Mr. Mills believes extractive industries are now favored) over others. Tax laws are in need of careful adjustment whenever they create a situation such as the present one in which business decisions on such matters as new capital investment and corporate merger "are frequently dictated by considerations of tax advantage rather than objective analysis of market forces."

To keep taxation essentially neutral in its long-range economic impact, it is imperative that federal revenues and expenditures be kept roughly in balance, not necessarily every year, but over a period of years.

Mr. Mills accepts the economic necessity of deficit financing in years of recession or emergency, but he believes that during boom times the government should not only balance its budget, but should take in a surplus to trim the national debt built up during bad years.

Does this mean he sees no hope for substantial tax relief in the next few years even if present prosperity continues?

On the contrary.

"If we follow sound policies, and forego any shortsighted, inflationary tax cuts during a boom, I believe we can count on a steady economic growth over the next decade that will make possible substantial reductions in tax rates—possibly by as much as one third."

The Second District of Arkansas is essentially Deep South in its racial attitudes, and Mr. Mills reflects its prejudices by voting consistently with the southern bloc on segregation and civil rights issues. But there is the suggestion of an apology in his explanation that "I couldn't stay in Congress unless I voted the way I do on these highly emotional issues."

As this statement indicates, Mr. Mills is not a crusader. His integrity is unquestioned—he cannot fairly be accused of being under the thumb of any lobby or pressure group. There is abundant evidence that he conscientiously tries to serve what he considers to be the best interests of his country, his district and his party. But no one who knows him well would describe him as a passion-

TAX BILL *continued*

ate idealist, a zealot, or a reformer. He is, unashamedly, a politician, and he sincerely believes that one of the duties of a congressman who wants to serve his country is to get himself re-elected.

He has been enormously successful in his discharge of this particular duty. Only twice since he was first elected to Congress in 1938 has he had even token opposition in the Democratic primary, which is the only election that matters in his district. He won both of these contests so handily that no one has run against him for 12 years, and no opposition is in sight this year.

One reason why he is so formidably entrenched in his home district is that he has never succumbed to the belief—fatal to many another congressman—that he has become too important in national affairs to be bothered by such trivia as sending Agriculture Department pamphlets to his constituents. As soon as Congress adjourns each year, usually in July or August, Mr. Mills hurries home to Arkansas to begin a round of hand-shaking and speech-making that will take him into every town of his 13-county district before he re-

After he finished his education at Hendrix College and Harvard Law School, he returned to Kensett to launch his political career. But it was 1933, and the depression dictated that he work a year as cashier in his father's bank before he was able to set up a law office. Once he hung out his shingle at the county seat of Searcy, Ark., he was not long getting into politics. He was elected county judge (largely an administrative post) in 1934 and served four years. In 1938, he ran for Congress and won easily. He has been there ever since.

While he loves his job, Mr. Mills no longer considers it glamorous. He knows now that being a congressman involves a lot of hard work—and—worse—long separations from his family. After 18 years, the Mills family still regards Kensett as home, and Washington as a place where Daddy has to be on business for part of each year.

They live in a rented apartment in northwest Washington, and each June, as soon as school is out, Mrs. Mills and her pretty daughters, Martha, 17, and Rebecca, 14, go home to Kensett. Mr. Mills follows when Congress adjourns a month or two later.

Mrs. Mills and the girls have to return to the Capital in September,

Representative and Mrs. Mills with their daughters

turns to Washington in December, just in time for the new session.

Congress is the only career Mr. Mills has ever had, or wanted.

"I decided when I was ten years old that I wanted to be a congressman," he recalls with a smile. "I've never regretted the decision."

What fired his youthful ambition was a visit to Kensett by the late William A. Oldfield who represented the Arkansas Second District in Congress for many years. When young Wilbur saw how much attention was lavished on the visiting lawmaker, he concluded that being a congressman was even more glamorous and exciting than being a railroad engineer, his first ambition.

when school resumes. Mr. Mills stays in Arkansas until Thanksgiving or Christmas, when the family is again reunited in Washington. Mr. Mills accepts this arrangement philosophically as part of the price of a congressional career.

His hobby, aside from reading Prentice-Hall reports and the *Tax Journal*, is spectator sports. He is a loyal fan of the Washington Senators and the University of Arkansas Razorbacks.

He is also an active layman in the Methodist Church, a heavy smoker of filter cigarets, and a man who ruins perfectly good steaks by insisting that they be burned beyond recognition.—Louis Cassels

in any field as rapidly changing and dynamic as atomic energy. The emphasis could change overnight and, therefore, the law might have to change overnight. It is doubtful that atomic law can ever become permanent or fixed.

Do you agree with the Panel view that primary peaceful development should be in private hands?

Yes, I do. But I would not say that private industry should have an exclusive role. I think that some benefit could come from government development, but I think we should wait to see what private developers do first.

If industry is to go ahead on its own in developing a civilian atomic industry, to what extent should government aid be extended?

We have to experiment as we go along, keeping in mind that as government subsidy increases, industry activity ceases to be private enterprise. I think I am safe in saying that a majority of the Joint Committee believes that government subsidy should be reduced.

The development of proposals for an atomic power plant by Commonwealth Edison of Chicago, for example, shows how this subsidy question works out. There were many suggestions that they should go the subsidy route—that they should ask for an agreement in which the government would put up a great share of money. When they got through, they had a proposal without subsidy, except for AEC research, and I think it was a splendid example of the ingenuity and courage of private enterprise.

Since government has a monopoly on nuclear fuel supplies, how can a private company be assured of a steady fuel supply for the facilities it builds?

Only by the guarantee that the Atomic Energy Commission, I would hope—and Congress, I am sure—would never allow a company to build a plant and be crucified by being prevented from obtaining what it needs to operate. Present licensing practice is to guarantee a fuel supply for the life of the plant, up to 40 years.

The government has spent about $14,000,000,000 to date in atomic energy. How would this public investment be liquidated if the government were gradually to withdraw from the field?

We could do two things: Government could continue to operate those plants which produce an essential product, or, as in the case of the synthetic rubber plants, it could operate them until industry was ready to take them over and then sell them to industry. I would think that would be less desirable in the case of our uranium diffusion plants because a venture involving the expenditure of $1,000,000,000 is pretty big for any private industry, particularly when you recognize that a scientific breakthrough might wipe out its usefulness the next year.

I feel that the government ought to continue to operate such plants for some time.

What are chances of passage of the Gore Bill (S. 2725) with its provisions for public development of atomic power?

I'd hate to estimate what the Committee or Congress is finally going to do. I would think that the proposal might possibly be considered as a companion to private development—with the understanding that any plants constructed in this fashion might be yardsticks to apply against the rates of development of private industry. If private industry seemed to be moving too slowly, the government development might indicate that.

What can be done to make information on atomic development more readily available?

We hope to see more frankness toward the citizens on the part of the Atomic Energy Commission. If there is frankness, then there is no need for legislation on information. If there isn't, then you are into a long battle. I hope to see information a subject of discussion but not of legislation.

It is much better to obtain general agreement between industry as to what it needs and the Atomic Energy Commission as to what it can satisfactorily give out.

Hasn't industry frequently pointed out, however, that it is having

“The primary peaceful development of the atom should be in private hands”

Here's business' role in atom's future

The Chairman of the Joint Congressional Committee on Atomic Energy gives his views on handling secrecy, patents, fuel supply, insurance, research.
An interview with Sen. Clinton P. Anderson

FRED J. MAROON

What changes in atomic law can be expected at this session of Congress?

Few of us on the Joint Committee see any need for total revision at present. The Act of 1954 took a long time to prepare and a longer time to pass, and I don't think we ought to expect to see anything quickly shoved through Congress unless altered circumstances quite obviously require it.

What particular subjects are most likely to be taken up by the Joint Committee for discussion and possible legislation?

One will probably be patents. I do not now say the patent section needs revision. But at the time it was adopted, there was a sort of gentlemen's agreement that we would all take a look at it again this year, and I think we should. Then, too, the question of licensing has so many ramifications that we ought to see how licensing provisions are working. Insurance is another possibility. So is information.

What is the Joint Committee's schedule for dealing with these problems?

As a result of our first round of hearings we now have the views of both the Atomic Energy Commission and industry. We hope to match these up to see if we have any areas of agreement or disagreement. If industry, for example, is dissatisfied with what the Atomic Energy Commission is doing, we will see if we should propose legislation or whether by friendly intervention and discussion we can find a meeting ground for the divergent points of view. We will hold other hearings to develop these conclusions.

What role will the recent report of the Committee's special Panel on the Impact of the Peaceful Uses of Atomic Energy have in shaping atomic law?

It will serve mainly as background. We will try to shape the policy in the Joint Committee, which we will then submit to the Congress and, if acceptable there, to the President. The Panel was not intended to make policies. It was intended to point out things which were taking place in the peacetime application of atomic energy and to suggest areas and subjects for study rather than to outline to us the policies that should be followed.

Since the Panel calls the present Atomic Energy Act a transitional policy, when can we expect a permanent set of rules?

Continuous revision is necessary

ATOM'S FUTURE

continued

trouble getting AEC to change policies in this respect?

Yes, and I will try to be an ally of industry when any test comes.

The Panel points out that all information is now born classified: Is there any chance of seeing information born free?

I agree with the Panel that atomic information should be free every time national security will permit it. If we would start out with the conviction it ought to be free, then we will not classify so much as we would when we start out with the theory that all of it needs to be classified —and then only declassify where we may safely do so. There is a vast difference in the approach.

We found out at Geneva that many of the things we thought were our secrets were also the secrets of a half dozen other countries.

Have classification standards been revised during the half year that has passed since Geneva?

No. It was thought that there was an enormous volume of work to be done, and there may have been. I am willing to be patient, but at the same time I feel that the Geneva conference demonstrated pretty clearly that these classifications need to be overhauled and reappraised.

Since Russia apparently has hydrogen bombs, why not release information on progress in controlling hydrogen or fusion energy?

I take a rather strong position on that. We know that Russia does have an effective hydrogen bomb. They must, therefore, know approximately what we know, and they might know more than we know.

That being true, I think that we could safely declassify a great deal of our knowledge of fusion. I have faith in a great many scientists who have come to this conclusion and testified to that effect before our Committee.

Do you believe that the best way to get the AEC to loosen up on its storehouse of information is through persuasion rather than legislation?

Yes. It is hard to say by law that they shall be compelled to declassify something that they may regard as classified for security reasons. But I think that freeing information is the one way to combine the efforts of all scientists, all students and everyone who can have an idea for the development of nuclear power.

What is your own timetable for the commercial use of hydrogen power?

Fifty years. That is not based on suspicion or guesswork, but on long talks with scientists. They have said that it will take this long because you will not have the commercial incentive. After all, there isn't enough difference between electric current that costs, let us say, 6.2 mills and hydrogen power which might cost six (for comparison) mills to justify building a plant whose cost might be $1,000,000,000.

Concerning the insurance problem, do you feel that this is a field for government action?

The insurance people think they may be able to supply coverage without bringing in the government as a co-insurer. Any time you put the government in business with you as a partner, you naturally expect the government is going to have to be allowed to say something about the way you conduct your business. I think the insurance companies indicated their desire to hold down that participation.

The stock companies announced they could cover up to $50,000,000, which is quite a bit of coverage. The mutual companies may add a substantial amount. If they do, then surely that is an indication that the insurance companies do not welcome government participation at present. It may be that they will need it later. That could come when development of reactors gets further along.

If industry admits that it can't handle catastrophe risks, then government may have to undertake some sort of over-all reinsurance. But we ought, it seems to me, to make the fullest possible use of the facilities of private insurers first and cover only a special catastrophe or hazard over and above the ability of insurance companies to handle.

Have any firms which wanted to get into atomics been delayed because of lack of adequate insurance coverage?

I know of an instance where the planning and programming of a company has been seriously impeded and may be totally stopped because it fears it is not able to obtain insurance coverage in requisite amounts when it is ready to go to work.

Doesn't the problem require immediate solution?

Well, the construction of a reactor takes more than a single year; therefore, I don't think it has to be settled in this session of Congress. But I do believe that the preliminary work toward solution ought to be done during this session if the insurance industry itself indicates that it can't take care of coverage.

Isn't the potential risk so huge that the government would finally have to come in?

If you will confine by law the liability of insurers to just the property damage that is inflicted around the reactor or the destruction of human life around the reactor, they can probably handle it. But if you say that they shall also be liable for any disturbance that may come in subsequent years, then you have a coverage which they may not be able to extend to industry.

While many believe that government insurance is the easy route, I say we are better off to let private industry have a crack at trying to cover this than to make all of our experiments government monopoly.

If there is any action on patents at this session, will it deal with the compulsory licensing provisions of present law?

That would be the only purpose of taking it up. Compulsory licensing dies automatically in 1959, and my guess is we will not deal with it affirmatively now. If we did, we would probably remove the 1959 termination date and I doubt whether the Congress is ready to do that.

Should private companies which are heavily involved in the government atomic programs have greater freedom to acquire private patents?

I do not believe so. These companies are spending government money and they have government engineers making suggestions to them. I think it would be a shame

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Other Bonds	95,075,024.26
Preferred and Common Stocks	219,808,155.25
Cash in Office, Banks and Trust Companies	32,579,563.90
Investment in The Home Indemnity Company	22,550,779.00
Real Estate	7,042,990.73
Agents' Balances or Uncollected Premiums, less than 90 days due	22,943,969.87
Other Admitted Assets	5,500,063.26
Total Admitted Assets	$483,137,688.40

LIABILITIES

Reserve for Unearned Premiums	$181,118,526.00
Unpaid Losses and Loss Expenses	36,490,541.96
Taxes Payable	7,400,000.00
Reserves for Reinsurance	2,153,366.39
Dividends Declared	2,000,000.00
Other Liabilities	4,123,304.12
Total Liabilities	$233,285,738.47
Capital	20,000,000.00
Surplus	229,851,949.93
Surplus as Regards Policyholders	$249,851,949.93
Total	$483,137,688.40

NOTE: Bonds carried at $5,786,872.90 amortized value and cash $86,100.00 in the above balance sheet are deposited as required by law. All securities have been valued in accordance with the requirements of the National Association of Insurance Commissioners.

Balance sheet of THE HOME INDEMNITY COMPANY

December 31, 1955

ADMITTED ASSETS

United States Government Bonds	$ 22,888,457.90
Other Bonds	20,960,652.19
Preferred and Common Stocks	12,669,197.25
Cash in Office, Banks and Trust Companies	1,943,795.59
Agents' Balances or Uncollected Premiums, less than 90 days due	4,995,297.14
Other Admitted Assets	1,139,558.43
Total Admitted Assets	$ 64,596,958.50

LIABILITIES

Reserve for Unearned Premiums	$ 18,670,374.00
Unpaid Losses and Loss Expenses	22,127,368.00
Taxes Payable	804,000.00
Reserves for Reinsurance	135,636.00
Other Liabilities	301,510.47
Total Liabilities	$ 42,038,888.47
Capital	1,500,000.00
Surplus	21,058,070.03
Surplus as Regards Policyholders	$ 22,558,070.03
Total	$ 64,596,958.50

NOTE: Bonds carried at $1,095,000.00 amortized value in the above balance sheet are deposited as required by law. All securities have been valued in accordance with the requirements of the National Association of Insurance Commissioners.

HAROLD V. SMITH, *Chairman of the Board*

KENNETH E. BLACK, *President*

DIRECTORS OF THE HOME INSURANCE COMPANY

LEWIS L. CLARKE
Banker

HAROLD V. SMITH
Chairman of the Board

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New York City

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President, City Investing Co.

GEORGE GUND
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LEROY A. LINCOLN
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JOHN M. FRANKLIN
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LEONARD PETERSON
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HERBERT A. PAYNE
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Real Estate

HOME OFFICES: 59 MAIDEN LANE, NEW YORK 8, N. Y.

ATOM'S FUTURE

continued

if they obtained private patent rights as a result of that.

The uranium mining industry is concerned over the cut-off date of guaranteed purchases of ore by the government in 1962: Is any action planned to extend that date?

That is a matter for judgment by the Atomic Energy Commission, which must consider military requirements and the maintenance of a healthy uranium industry. I feel, however, that 1956 is not too early to announce what will happen after 1962.

In purchasing uranium, should the government continue to buy all that is offered?

At present I don't think we are acquiring uranium too rapidly. I believe costs will rise steadily, and, therefore, that we should buy a substantial quantity of it—probably everything that is now offered.

Do you foresee any technological change rendering the use of uranium obsolete or obsolescent?

No, I see new technological developments bringing in companions, but I don't see them rendering uranium and fission either obsolete or obsolescent. I think there will be fields where we will continue to use fossil fuels. I believe that uranium will always be required for propulsion—steamships, submarines, locomotives. If we ever do succeed in handling thermonuclear processes, I believe its field might properly be central electric power stations.

Could you tell us whether there might be a cutback in military bomb production, releasing uranium supplies?

I don't think I could discuss that without getting into the field of restricted information, but I might say this: The minds of our military leaders and advisers are very fertile and they come up steadily with new uses for fissionable material in weapons. I don't see where we are going to cease wanting uranium for military uses very soon.

How big a barrier do you feel that radioactivity is to atomic development?

I don't think it is any bar at all.

What about waste disposal?

I think that is going to bring into existence a whole new flood of sanitary engineers, but presents no insurmountable problem. Technological progress will probably take care of it. For instance, we should try to find some way of utilizing wastes again—reprocessing, reworking—rather than burying them.

Are any such processes being developed?

Well, there is evidence that atomic wastes can be utilized in the food sterilization industry. Why not spend some money trying to seek a useful purpose for these rather than trying to construct cylinders to bury them in?

Do you feel that bomb tests are polluting the air we breathe?

No, I do not. I know nothing in the program of this country which is likely to do that.

Will the radiation hazard probably be the main reason for continuation of regulations by the government?

Yes. Public safety is probably the first consideration.

Can we anticipate continuation of government regulation, if nothing else?

Yes, insofar as it relates to health and safety.

Which level of government should have primary responsibility in this sphere?

Probably the states in time, but the federal government must assume a major role for the present. I doubt if all the states are able to assume the burden now. Uniformity is essential.

How big a barrier are shortages of manpower in development of the industry?

Our lack of atomic scientists in the new generation is, in my opinion, far more dangerous than our lack of knowledge as to just how to use thermonuclear power, or how to make direct conversions of energy into electricity. Unless we are able somehow to interest a great many more young people in chemistry, physics and mathematics as they are going through high schools—unless we can put a great many more of them into science careers in colleges and universities—I think the future is dark for this country. We know that the Russians are making enormous strides in these fields and we are going to be left behind unless we match those strides.

What can be done to get more young people to go into science and engineering?

I think we are going to have to change the pay scales and incentives of high school teachers. Companies are now coming into the high schools

ATOM'S FUTURE

continued

and hiring our high school science teachers.

Is this a field for government action?

Yes. I think that this country needs to determine about how many science students it needs to have graduated from the high schools and then about how many it needs to have graduated from colleges. If we could then try to make possible scholarships to a great many of these students, I think it would be the best money we could now spend.

What is our $12,000,000,000 or $14,000,000,000 investment in atomic energy worth unless we have scientists to go along with it? I think this is far more serious than many of our other problems.

On the international scene, how do you feel about the Panel's call for international conferences of all our bilateral agreement members to set goals for the use of atomic power around the world?

If American industry were to get as much out of the proposed series of international conferences as I got out of the Geneva conference, I would be all in favor of giving them that chance.

Do you feel bilateral agreements with all their restrictions are here to stay or is there any alternative?

I believe that until we are much further along we have to have bilateral agreements and that we have to learn what to do with them as we go along. Even though we cannot give the necessary definiteness to them that the countries with which we are dealing might desire, we have to realize that most of these things come back to the Congress of the United States and that you cannot bind that Congress in advance as to what it is going to do. You can only go as far as present laws permit you to go.

Would an international atomic agency be the alternative to this arrangement?

I think it might be. I would not like to see an international atomic agency for peaceful uses set up, though, until we have made greater effort to see if there isn't some international control that we can give to weapons. I feel that if we set up international agencies for the beneficial uses, we might as a result of that relax our work in the international weapons-control field.

Would you favor reorganization of the AEC?

I think I would like to study the possibility of separating the licensing functions of the AEC, which are somewhat judicial, from the scientific, exploratory and development processes of the AEC.

These are quite divisible, it seems to me.

Would promotional activities also be divisible from licensing?

I was thinking that the promotional feature might stay within the Commission and that the licensing feature might move out from under. I am not committed to that procedure yet.

I would think we might make some headway if we excepted regulation from this whole question of development of new processes, the spread of information round the earth and all the things that we want the Atomic Energy Commission to be concerned with.

Do you think the AEC could split apart its military and civilian activities?

I don't think it needs to. I don't think the civilian membership of the Atomic Energy Commission has stopped it in any way from devising new military applications.

Is the fact that the Commission must pay first attention to military aspects detrimental to civilian development?

I don't think so.

To put atomic energy in better perspective, could you give us your own estimate of the potentials of the atom and the contribution it can make to American life and the economy?

I know of no limitation we can place upon the good that may be obtained from the ultimate utilization of atomic energy in the fields of medicine and agriculture, and in bringing electric energy to remote areas.

The development of package reactors could, and I believe will, mean that you can move into those areas with a small efficient plant which will permit them to have electricity at a satisfactory rate . . . With all that power can mean in raising living standards.

What can businessmen do to help speed this realization?

I think they must keep their minds open to the possibilities that atomic energy presents for good and not worry over competitive threats. To me, the great opportunity for businessmen is to read closely the Panel report, to learn all they can know about this power, to follow current developments as best they can, to refuse to become panicked by assertions that technological change is going to put their industries on the shelf, and to work with their local school authorities in trying to make sure we do not fall behind in the race for scientific development. Given this healthy approach, I think each will be able to share fully in atomic energy's fascinating future. END

CREDIT REFERENCE

The late Dr. Herman B. Baruch, brother of the famous elder statesman, once called my business firm to place a small order. Not at first recognizing the name, I asked for the usual three credit references.

Well known in his own right as a financier and a former ambassador to both The Netherlands and Portugal, Dr. Baruch nevertheless promptly supplied the names of Cordell Hull, Henry Stimson and Harold Ickes.

Only then did I realize who the caller was. I began to apologize, blaming my youth and newness on the job, but he interrupted. "Never be afraid to ask for credit references, young man," he said. "If the person or firm is worthy of credit he'll be glad to furnish the information. It's only the questionable ones who really take offense."

—Jerome S. Gross

Transportation. Time-tested and performance-proved 'Jeep' Trucks, with the extra traction of their 4-wheel drive, carry men, tools and equipment wherever they're needed—through mud, sand and snow—over bad roads or where there are no roads—where ordinary trucks can't go. They serve virtually every type of industry from construction to mining to lumbering.

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TAX EXEMPT GIFT LIST STILL GROWING

QUESTION: When is a business donation to charity tax exempt? Answer: Oftener than it used to be.

Contributions to some 40,000 charitable, religious, scientific, educational and other organizations can be deducted from income for federal tax purposes today and it is still growing. In 1950 the number was 32,000.

Broadly speaking, corporation contributions to these groups are tax deductible if they do not exceed five per cent of taxable income.

Under certain conditions, unincorporated businesses may claim deductions up to 30 per cent of adjusted gross income, although the general limitation is 20 per cent.

A contribution is not necessarily exempt simply because the organization receiving it is tax exempt. Dues payments to chambers of commerce, labor organizations, and civic leagues carry no exemption, for instance, although they are frequently deductible as business expenses. Where questions arise as to whether a payment to a qualified organization is charity or a business expense, the five per cent limit applies. No deduction may be taken as a business expense if any part of the contribution is allowable under the section of the tax code covering contributions to charitable organizations.

For example, if a corporation gives a charitable organization \$5,000, and only \$4,000 is deductible under the five per cent limitation, the remaining \$1,000 cannot be deducted as a business expense even though a direct business benefit may result from the payment. However, corporations are permitted to carry the excess over to the two succeeding taxable years.

The rules covering unincorporated businesses give a special break to churches, tax-exempt educational organizations and exempt hospitals. An additional ten per cent deduction, above the 20 per cent general limitation, is allowed for contributions to such organizations. Internal Revenue Service says that the donor should first figure the contributions to the special institutions to the extent of ten per cent of adjusted gross income, and the amount in excess of ten per cent should then be added to the other contributions to which the 20 per cent limitation applies. END

Our acceptance of the first principle—encouraging fair competition—is one of the great reasons why our productivity and our standard of living has so outpaced Europe. Europe, including England, has tried cartels and socialism. These have not stimulated production as has competition.

The second important principle which has been essential to our growth, particularly in the past 50 years, is not so well understood. This principle says that profit from production is honorable and to be encouraged, but that profit from speculation is honorable and to be protected only if it is incidental to a productive operation. If Henry Ford can get $100,000 to invest in a new idea of mass-produced automobiles, it is all right if he builds that $100,000 into a $1,000,000,000 productive operation. But if a speculator tries to use funds to get a corner on platinum or winter wheat that is wrong.

Speculation used simply as a device to shift existing assets from one ownership to another will run afoul of the stock exchanges, the SEC, the Post Office Department, the Federal Trade Commission, or the Department of Justice.

The difficulties of the '70's, of 1907, of 1921, and of 1929, were due in part to failure to understand that speculation simply as a device to make money was incompatible with our economy.

We learned a little of this in the '80's and '90's when business investments and activities turned toward unproductive practices and toward practices flagrantly in restraint of trade in the railroad field particularly. The ICC legislation of 1887 and the Sherman Act of 1889 were a result of this lesson. We learned still more when the new trusts formed in the '90's manipulated markets and prices for speculative purposes. The Federal Trade Commission and the Clayton Acts of 1914 were designed to clarify and enforce rules of fair play and to discourage efforts to make profits from speculation as such.

The importance of the third principle, the need to control credit, and to relate it to savings, began to be better understood after the panic of 1907. The Federal Reserve Act of 1913 was a result of this lesson. In the 40 years since this agency has been in existence, particularly since 1929, the country has learned much about financial responsibility, the dangers of financial speculation, and how to relate the flow of savings to the demand for legitimate investment, particularly short-term investment. The Federal Home Loan Bank Act of 1932 attempted to go a step further and adjust the flow of savings to the need for long-time investment in housing, and to discourage a repetition of the speculative activities in the housing markets which developed during the '20's.

Most of the permanent federal financial or regulatory agencies created in the early '30's were designed to improve the flow of savings into investment and to curb speculative excesses. Some, such as the Federal Communications Commission and Federal Power Commission, were set up to apply the rules of fair competition to new areas, or areas not adequately covered.

Ever since the creation of the ICC we have been trying to learn how to interpret what is meant by fair competition, and to distinguish between useful and parasitic speculation. Ever since the panic of 1907 and the creation of the Federal Reserve system in 1914, we have been trying to learn how to match the flow of savings to the volume of investment, to facilitate the sound growth of industry and commerce, while still discouraging unhealthy speculation.

Most of the rules in question in the nonagricultural portion of the economy are the administrative responsibility of the ICC, the Federal Trade Commission, the Federal Power Commission, the SEC, the Department of Justice, the Federal Reserve Board, the Home Loan

AGENCY	AGE	DIFFICULTIES
INTERSTATE COMMERCE COMMISSION	69	*A sick railroad industry for a third of that time*
FEDERAL TRADE COMMISSION	43	*We do not know what is meant by fair competition*
FEDERAL RESERVE BOARD	42	*A speculative boom in '29 one third of our banks closed in '33 price spurt since '44*
HOME LOAN BANK BOARD	24	*Commitments to finance home builders were canceled last fall*

OUTDATED CONTROLS CRAMP BUSINESS

Here's what happens when government tries to regulate today's economy through agencies up to 70 years old

AMERICAN business is operating under out-of-date rules enforced by outmoded government institutions. This is one of the greatest challenges facing the country—and business—today because skilled government is now as important as skilled business.

Although most Americans still believe that the best government is that which governs least, under today's conditions government must maintain and enforce fair rules of the game. To the extent that it does not maintain and enforce such rules, the government is a failure and the economy will suffer.

Today our rules are neither up-to-date nor easily understandable.

This year our gross national product will approximate $400,000,000,000.

Among the many government agencies which will enforce rules for this tremendous production are:

The Interstate Commerce Commission created in 1887.

The Federal Trade Commission created in 1913.

The Federal Reserve Board created in 1914.

The Home Loan Bank Board created in 1932.

We have had the Interstate Commerce Commission for almost 70 years—and a sick railroad industry for a third of that time.

We have had the Federal Trade Commission for 40 years, but Alcoa or General Motors or the A&P still do not know certainly whether government will permit them to grow or, if so, how much.

We have had a Federal Reserve for 41 years, yet during that time we had the speculative stock-market boom of 1929, a third of our banks were closed permanently in 1933, and prices shot up and stayed up after 1944.

We have had the Home Loan Bank Board for more than 20 years, yet commitments to finance home-builders were suddenly canceled in volume last fall and the home-building industry may face unusual difficulties this spring.

For our country to prosper we need to know what is meant by fair competition, what line divides productive from parasitic speculation, how to control the flow of credit so that it becomes neither inflationary nor deflationary.

HOW REGULATION LAGS

In the past 69 years American business has increased the gross national product to about $400,000,000,000, population has grown, production methods, transportation, buying habits have changed but the rules-making agencies designed for a different kind of economy have not been modernized

of the concepts of economics prevalent in 1889 or 1914, may not be fair today. And what would have been unfair competition in 1889 or 1914 may really strengthen fair competition in 1956.

For instance, the Department of Justice is attempting to block the merger of Bethlehem Steel and Youngstown Sheet and Tube. The logic is understandable. Two competitors, one the second largest steel producer, and the other the sixth largest producer, would cease to compete with each other. A new, large steel company—second only to U. S. Steel—would appear. In terms of the conditions of 1889 or 1914 this would appear to reduce competition.

On the other hand, Bethlehem cannot now compete effectively with U. S. Steel in the Cleveland district. And Youngstown needs new facilities if it is to compete effectively. It claims it is not large enough to finance the facilities it needs. Combined with Bethlehem, it would have the resources with which to get the needed facilities. It could therefore compete more effectively. More of the needed additional national capacity would be supplied by Bethlehem-Youngstown and possibly less by U. S. Steel.

The merger might therefore actually increase competition.

The fact that this merger is being challenged points up a weakness of the Federal Trade Commission and the related Antitrust Division of the Department of Justice. The $400,000,000,000 GNP of 1956 cannot survive on the rules that seemed to suffice for the $112,000,000,000 GNP of 1914-1915, or the $50,000,000,000 GNP of 1889. We must find what competition is today, not what it was in 1889 or 1914.

In the same way, we must find out what monopoly is today—not what it was yesterday.

To the extent that a monopoly restricts competition, monopoly is bad. To the extent that it encourages competition, it is good. But many say a monopoly, by definition, destroys competition.

Words get in the way of thought from time to time, and this may be one of the times. What is a patent but a monopoly? Did the patent which enabled Mr. Hoover to market the vacuum cleaner reduce competition? It enabled him to compete with carpet-sweeper and broom manufacturers, and by that competition to increase the amenities of living.

Did the aluminum patent to Mr. Hall reduce competition? Though Alcoa had a virtual monopoly on aluminum for 50 years, it reinvested its earnings in expanded capacity,

CRAMP BUSINESS

continued

Bank Board, the Veterans Administration and the Federal Housing Administration.

Any study of how we are succeeding in developing regulatory skills comparable to the skills we have developed in running industry itself would include a study of the effectiveness of all these agencies. For illustration, however, let's look at the ICC, the Federal Trade Commission, the Federal Reserve system, and the Home Loan Bank Board.

When the Interstate Commerce Commission was created in 1887, the principal job was to see that the railroads charged everyone the same rates, that no community or commodity was discriminated against, and that tariffs were reasonable. There was no large trucking industry, no automobile traffic, no air line companies. The railroads had a virtual monopoly, and they were well able to take care of themselves.

Although the ICC brought the original abuses in railroad operation under control between 1887 and 1920, its action brought other difficulties.

It caused railroads to compete with each other for business, but in an inefficient way. As railroads could not share business by agreement, they went after it by building duplicating facilities, by extensive cross hauling and circuitous routing. Cooperation was difficult, so uncoordinated terminal development and operation became the order of the day. Track mileage increased more than 50 per cent from 1890 to 1920, but much of the capital investment went to duplicate existing facilities. The situation got so out of hand that the Interstate Commerce Act was amended in 1920 to give the Commission power to limit expansion, to authorize abandonment of existing facilities, and to permit some cooperation.

Meanwhile, in getting rid of abuses, the ICC dropped more and more into the habit of substituting its business judgment for that of the carriers. It determined not only what rates were fair, but also what rates were adequate. This meant a negative approach came to dominate railroading. The roads had to push proposals through the ICC. They could not reach decisions and act promptly on their own initiative.

The railroads might have managed to serve the economy despite this negative approach if competitive means of transport by road, water and air had not developed.

The ICC was slow in waking up to the implications of this new situation. It only began to permit cooperation and abandonment of some surplus lines when it was too late, and it still superimposes its judgment on the rails.

In the meantime autos took much of the passenger business, and trucks have already claimed the more profitable freight business. Governments, federal and nonfederal, have encouraged competitive systems of transportation (and often wisely so) but they continue to discourage the railroads.

More than 1,000,000 miles of roads have been hard-surfaced since 1920. More than $15,000,000,000 of federal funds have been spent on the Merchant Marine, more than $3,000,000,000 on river and harbor improvements, more than $1,000,000,000 on air facilities. But the railroads have been taxed and regulated negatively.

This is not to imply that highway and air traffic should not grow rapidly. It does suggest that, although the rails no longer hold a monopoly position, the rules still force the railroads to compete primarily with each other. After nearly 70 years of ICC history, we do not have a capable, modern, and financially strong system of rail carriers.

The Federal Trade Commission's responsibilities include enforcement of the Federal Trade Commission and the Clayton Acts. As the Commission interprets it, this responsibility means the prohibition of unfair methods of competition and of unfair or deceptive practices. Unfair methods include price-fixing agreements, boycotts (except by labor, which usually is exempt from antitrust legislation) combinations in restraint of trade, unfair price discrimination, corporate mergers or other actions which might substantially lessen competition or promote monopoly.

In carrying out these duties, the FTC faces some difficult questions:

Is price discrimination always bad?

What is unfair competition?

What is monopoly?

Obviously what is fair under one set of conditions may be unfair under others. Price-cutting in one instance may be designed to force a competitor out of business. In another case which appears to be identical, the cuts may be made in a desperate attempt to stay in business. In a third, they may follow improved production or distribution methods. In a fourth they may follow a decision to close out an item or group of items.

Similarly, what was fair, in terms

worked out organization and plan of operation ever designed to control money and credit in this country. The grant of powers was deliberately broad and the principles under which these powers should be used were relatively clear-cut.

In general, it was held at the outset that it was the function of the Federal Reserve system to see that ample money and credit were available for the economy to function effectively but without inflationary or deflationary pressures flowing from the money and credit system itself. This somewhat limited view of the responsibilities of the system was held for nearly 20 years.

But the Reserve system gradually broadened its sense of responsibility.

Today, it is interested in and will attempt to check any excess flow of money and credit to housing, to inventories, or to the stock market. It will try to have an adequate supply available. It attempts to follow the path which separates inflation from deflation. In doing so, it is concerned both with short- and long-term credit and with holding the volume of both to what it considers to be the needs of the economy at the moment and in the near future.

This broad responsibility is handled with a dedication which Congress and the Administration respect. It is done with no detailed rules being laid down by the Congress or the Administration, but with objectives which all understand.

By trial and error we have come upon a system which gives the flexibility which government by men can give, yet is still responsive to the obligations of a government by law.

In the Federal Reserve we have a government of men acting in general terms, not a government of men interfering in the specific decisions of the market place. The general nature of the action, which leaves the market free to make its own decisions in the light of the new rules of the game, accounts in large part for our willingness to let the Federal Reserve assume more and more control over our financial operations.

As a result we have in the Federal Reserve an institution which is close to ideal, an institution which wields great powers, with little check, and under broad rules.

Nevertheless, the Federal Reserve is not able to handle all problems today, just as it was not able to handle all problems in the past.

From 1917 to 1919, the Federal Reserve successfully helped the government finance World War I. It did, however, use methods which today might be considered as contributing more than necessary to inflation. In

CRAMP BUSINESS

continued

and the use of aluminum grew faster than had the use of any other metal in all history and without the protection of tariffs.

It is possible that progress might have been faster if the company had been broken up. But could faster progress have come in the '20's? Production tripled from 1922 to 1929. Would a break-up of the company have speeded this? Production increased even during the '30's. Would new companies have been able to command the resources to expand capacity as Alcoa did during the '30's?

Where would our power industry be now if it had to rely upon copper for its conductors? The monopoly that was aluminum has supported vigorous competition in the conductor field. This points up the fact that our concern is basically fair competition, and that sometimes, and for a period of time, even monopolies may increase competition. We must not automatically condemn a concern because it has one type of monopoly —whether a small one like Hoover's, or a big one like Hall's. We must see whether the apparent monopoly adds to or subtracts from the general level of competition.

This is even more true when the benefits or harm of proposed mergers are being examined. The type of merger that was common in the '90's and the first decade of this century, put through for speculative purposes, or to restain trade, is no longer the rule.

Evidence indicates that the more recent mergers have been the result of tax pressures in some cases, but in general they have resulted from technical, financial, or marketing reasons. Although what we are really interested in is competition, attacks are made on size as an evil. There are without doubt points at which size becomes less efficient, and less competitive. But the test should be efficiency and real competition.

We need to ask continually, "What will increase effective competition and so help the country grow?"

If stopping this or that company from growing helps the country grow, we should take the necessary steps. But we should not stop a company from growing if that means hurting competition, and the country.

The Federal Trade Commission has gone so far as to say that a particular action can be presumed without proof to restrict competition. Without adequate inquiry or factual analysis, it is decreed to be immoral and is declared illegal.

This approach does not give adequate weight to the fact that business practices today are too complicated to make it possible to set up unsupported inferences and presumptions without putting a tight checkrein on progress. If we persist in this, we will threaten business in general with the strait jacket that the railroads have come to know so well.

And more than a negative approach is necessary. One of the reasons small business finds it difficult to compete is that we have not developed a good financing system for small business. The creation of an adequate, long-term capital market for small business would do far more to protect competition—and small business—than continued attacks on bigness as such.

It seems possible to have competent supervision by able men in this field, properly guided and checked. A good beginning has been made in the past two and a half years at the Federal Trade Commission. If progress in the second half of this century is to equal the progress in the first half, this progress must be sustained.

Hopes for such progress are raised by the fact that great advances along this line have in fact been made in the field of credit control.

The Federal Reserve Board has more effective control over the economy than any single agency of the federal government. It can change the rules of the game—change reserve requirements, change discount rates, buy or sell, or refuse to buy or sell federal obligations, and exert other pressures on financial institutions in such a fashion as to affect vitally every business in the country. That means it can affect every family.

Yet it can do this without public hearings, without the approval of Congress, and without check by the courts. The use of such powers is obviously in large part government by men, not government by law. It is a rule of reason.

We tried to operate under various money and credit systems for a century and a quarter with indifferent success. We found the equivalent of the Federal Reserve system had to be created.

The decision to make the system an independent one was deliberate. President Wilson insisted, at the start, that the Federal Reserve system should be nonpolitical and it is still so today.

The Federal Reserve Act of Dec. 23, 1913, was the most carefully

pose shall not have financing. But we have reached the point where we should be able to say the supply of goods and services for both long-term and short-term capital taken together are or are not adequate. We, therefore, should be able to act as effectively in the long-term as we do in the short-term field.

The importance of long-term capital to the business cycle is being recognized more and more. As long-term investment is stabilized, much of the pressure for boom or bust will be removed. As we develop instruments for stabilizing long-term investment, we will be removing another virus from the economy.

As our standards of living rise, we must have increasing amounts of investment per worker, and therefore more and more capital, and more and more complicated and expensive mechanical and electrical equipment, more and more complicated business and financial organizations. Small business must get bigger, and big business must be watched carefully.

This means that we must create institutions which make it easier for small business to compete with big—we should increase the efficiency of small business, not decrease the real efficiency of big business.

Governmental institutions must be able to act in technical matters without the need of specific authorization for every act, but subject to clearly defined principles. The more decisions are merely a reflection of what the government permits, rather than what the market place finds the citizens want, the slower the economy will grow. The more governmental actions can be actions which set the rule of the game, and the less they have to be specific cease and desist orders or specific orders of approval or denial of petitions, the faster the economy will grow. The more decisions can be left to the market place, subject to policy guidance, the freer we are, and the faster we progress.

This means that we need to be on the alert to adapt existing governmental institutions as times change, which is exceedingly difficult to do.

But inasmuch as business must operate under rules laid down by governments, it is necessary for business, labor, and consumers to keep alert to ossification in governmental agencies. The danger of this ossification is the biggest challenge to our rising standard of living. It, rather than the atom—which also must be handled under rules laid down by the government—is the next challenge of the Twentieth Century.

—Robinson Newcomb

CRAMP BUSINESS

continued

1920 it did not act in time to restrain inflation. In 1927 and 1928, it failed—in part for technical reasons which it did not understand then but understands now—to help check the stock-market speculation which initiated the collapse of 1929. Its action in 1931 aggravated the depression; however, there were strong reasons at the time for doing what it did.

Some of its actions in 1937 may be questioned. Its long continued inability to withdraw its support from the federal bond market contributed to the inflation which followed World War II. Its action in the bond panic of May, 1953, may have been dilatory. Such instances, which some observers feel represent at least partial failures, do, however, show that the Federal Reserve was learning during these years, and that the mistakes—if they were mistakes—were mistakes of judgment in an area in which it was necessary to learn by trial and error.

The recent period since the Federal Reserve withdrew its full support from the federal bond market has seen little inflation. The mild nature of the adjustment of 1954, which followed a ten per cent decline in the federal contribution to the economy, and which was accompanied by a sharp reversal of the inventory position, can be attributed in part to the strength and wisdom of the Federal Reserve Board action. But the experience of this recent period indicates that further changes are needed in the resources available to the Federal Reserve, or to some other agency, to improve our ability to set the rules of the game in the field of long-time credit.

The Federal Reserve can now influence short-term credit much more efficiently than it can influence long-term credit. The relationship between long- and short-term financing is so diffuse and varied that actions which are effective in the short-term field may take a long time to operate in the long-term market, and may even have unfortunate repercussions.

The need for improved methods of influencing long-term credit is becoming increasingly important. The inflationary pressures on the economy today are created as much by expenditures for capital goods and by long-term consumer credit for housing, for instance, as by short-term expenditures for inventories or consumer durables. The shortage of building materials and of metals in many stages of fabrication, for example, is due to large increases in investment in machinery and equipment in industrial and commercial plants, in large-scale engineering operations, and in highways, more than to an expansion in residential construction.

The problem is simple in concept—total demands as expressed by dollars must be kept within the physical ability of the economy to supply goods and services. Demands for goods and services in the private sector may come from consumers or even from business.

Our powers to restrict demands for money in the private sector are uneven, however. They may not affect demands for goods for producing factories, or machinery and equipment for many months after action has been taken. They may operate either quickly or belatedly in the housing field, depending on the extent to which irrevocable advance commitments have been made. They may affect some types of consumer purchasing quickly, and other kinds hardly at all.

The Home Loan Bank Board was originally conceived as a device for facilitating the flow of funds from areas with surplus money to areas with a shortage.

Announcement by the chairman last summer that savings and loan associations should limit the credit they extend to their own immediate flow of funds illustrates how far the Board has abandoned the original concept. It also demonstrates our lack of facilities to handle long-term credit.

The number of families with children is growing, the market for better and larger homes is obvious, and families have the resources with which to buy better and larger houses.

Yet because of his belief that overall demands for credit and money were exceeding the capacity of the country to use at current price levels, the chairman of the Home Loan Bank Board moved to reduce the supply of housing credit. Housing was increasing its demands for goods and services along with other capital formation segments of the economy. But the Board was able to influence the flow of credit in that area, so it acted in that area. Other areas were left relatively unmolested because it was difficult to reach them.

This is not an argument for specific controls. Our knowledge of economics in the market place has not reached the point where we can or should say that the competitive system should permit this company or this end-purpose to have financing while that company or that end-pur-

"These are the professional's basic committees," Mr. Church says. "He will form as many more as circumstances dictate. But one thing is important for all of them: They must know their facts. If a worker in a campaign can't answer questions, or if he answers them foolishly, he deals the whole campaign a blow.

"Another thing: Every volunteer worker must be made to understand the traditional fund-raising principle that 'the cause and the need are bigger than the institution.' In other words, volunteers must ask support not for such-and-such a hospital, but for the health of the community. In that way contributors are made to feel that they are giving for the sake of their own health, not simply to satisfy some group of do-gooders.

"Finally, it is wise to send solicitors out in pairs rather than alone. Not only does this give them confidence and authority, but it makes a home call more impressive. I have always urged them not to leave pledge cards when they depart. If the card is not filled out in the course of a visit, it is better to make another visit a couple of weeks later. To leave a card gives everybody the feeling that the job has been done—and yet nothing conclusive has been accomplished."

Under the leadership of a professional manager most campaigns are successful within the prescribed time. After that the fund raiser's only duty is to summarize the drive.

"Don't ever sell his last report short," Mr. Church says. "It is a distillation of everything the fund raiser has learned about the community. Also, it records the mistakes that have been made. In this final report are priceless guides for future fund raising in that community."

This is the system by which our generation of Americans have become the most generous givers the world has ever known. Today the average annual donation from families with incomes of under $10,000 a year is $149. We not only support 500,000 different causes and institutions; we have poured more than $30,000,000,000 into long range endowments.

This is big-scale giving in the American way.—OSCAR SCHISGALL

REPRINTS *of "These Fund Raising Tips Pay Off" may be obtained in reprint form for five cents a copy or $5 per 100, including postage. Order from Business Manager, Nation's Business, 1615 H Street N.W., Washington 6, D.C.*

FUND RAISING

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three to work closely with the professional director.

One of the initial duties of this executive committee is the preparation, with the aid of volunteers, of cards bearing the names of individuals, firms, and corporations that are to be visited in the drive for contributions. A recent hospital campaign for $1,700,000 was begun with 8,825 such cards for individuals and 1,674 for business organizations. Personal solicitation of these prospects is the most effective. In addition, however, the committee used various lists, including the telephone directory, to prepare 12,000 names of individuals and 300 firms to be solicited by mail. In short, the preliminary work has to be extensive. Once it is done, the campaign is ready for:

► The special gifts and the advance gifts committees. These are generally chosen from among the wealthier groups so that they may approach other wealthy citizens on comfortable terms. Their number? One volunteer for every ten people to be visited is the ideal ratio, but most campaigns do with fewer workers.

Incidentally it is wise to have these volunteer solicitors make their own contributions early. In that way they not only set standards for giving; they are in a position to answer the inevitable, slightly suspicious question, "And how much are you giving to this cause?"

► Next come the commerce and industry committees. The number of their subdivisions will depend on how many industries are to be approached, how many labor unions, how many retail organizations, and so on. In many campaigns this kind of work is augmented by fraternal committees that make their collections from various clubs.

► The community committee, usually the largest of all, is made up of the volunteers who go from door to door, who form telephone squads, who rise to make appeals at PTA meetings, who may even rattle tin cans in the lobby of the local movie theater. To keep up the spirit, the energy, the enthusiasm of this group is one of the fund raiser's principal jobs. If he is wise he generally does it with public praise of their efforts.

► The publicity committee is one of the busiest of all. It prepares pamphlets and handbills, newspaper stories, places radio and TV announcements; publicizes dinners and theater parties, writes heart-to-heart letters. Without a good publicity committee any campaign is at a hopeless disadvantage.

how to judge your GIVING

David Church, executive director of the American Association of Fund-Raising Counsel, Inc., lists the professional fund raisers' eight favorite don'ts as a yardstick for intelligent giving:

1. Don't give before you know what the cause is, who sponsors it and how the money is to be spent.
2. Don't give solely on an emotional basis. Study the needs of the cause so it receives an intelligent proportionate share of what you intend to give in total.
3. Don't give in response to impressive titles (a letter signed Judge So-and-so) unless you know and respect the person.
4. Don't give to a telephone solicitor unless he is willing to send a complete statement of facts.
5. Don't give to a solicitor who insists on an immediate cash contribution rather than have you mail a check.
6. Don't give to street collectors unless you are sure of the cause they represent. Anybody with a tin cup can raise funds.
7. Don't give to a cause unless it is registered according to law in your state.
8. Don't submit to pressure giving—that is, merely because a friend or acquaintance urges it.

talent and ambition onto the personality of someone who hasn't got them. But we can create a favorable climate and give guidance to the man of ability who is his own self-starter.

"In the second place the process of natural selection —the idea that the good man invariably realizes his potentialities and rises to the top or toward it—just doesn't pan out. In our case, it has produced too few managers too late.

Experience shows that managing skills can be taught and learned

"Moreover, we think that the practice of management is ahead of its codification. We are continuing research into method and motivation for a ten or even 20 year pull. Meantime, the responsibility for developing men using the knowledge already at hand, is written into the job assignment of every GE manager.

"Perhaps the most provocative—and important—idea on which we're proceeding is that managing should be regarded as a distinct type of work, with its own disciplines, its own criteria for achievement; something which is both learnable and teachable."

Mr. Smiddy is convinced that experience alone can no longer be counted on to provide appropriate management skills, in sufficient time; that while managing is no longer an art, it is not likely to become an exact science, either; that it is, however, acquiring the characteristics of a profession, that is, a systematic body of knowledge and ethics; that management laws and principles can be, to an increasing extent, discovered, verified, imparted and applied.

It was no accident that GE's high priority stress on management development coincided with the company's vast venture in decentralization during the past five years. It was originated and put into effect by President Ralph J. Cordiner in the belief the future success of GE depended largely upon diffusing its sources of decision making as widely as possible and thus attaining for each GE component the flexibility and humanness of the smaller operation, the kind that "a man can get his arms around."

The aim is to transform every department head, for example, into a highly independent manager. Within the framework of corporate policy, he has a latitude of judgment that would have been regarded as heresy even a decade ago. The same principle applies to his immediate subordinates and so on down the line to supervisor and foreman. It applies also to the people whom the company calls individual contributors—scientists, engineers, accountants and many others.

At every level the well-rounded GE manager is supposed to have the self-confidence and courage to stick his neck out—as did Dr. W. R. G. Baker, chief of electronics, about a year ago. He was sure that 14-inch TV receivers to retail as portable sets at $99.95 could have a huge sale. But market research surveys said this was impossible. He disregarded them, played his own hunch, made his portables and sold 200,000 of them in the first six months, at a decent profit.

GE is determined to supply itself with enough managers of this kind to meet its goal of $5,000,000,000 to $6,000,000,000 a year sales volume in 1963 (as against $3,200,000,000 in 1955) and otherwise to continue its advance for generations thereafter. During the 65 years of its history, it has tried out every form of training for its administrators, from job rotation to having them attend graduate schools of business. But the GE study showed that these and other prevailing methods would not produce the quantity and quality of competence required by the decentralization process, notably in the light of GE's expansion plans. Not customers, not products, not plants, not money, but

No company or industry can afford to let new managers just happen

managers may be the limit of GE's growth," Mr. Cordiner has declared.

Hence GE added two extras to its management development. It fashioned professional business management seminars to be held inside every GE department. And it established a Management Research and Development Institute as the first staff college ever created by a company for the higher education of its own executives.

Everything in the curriculum centers around GE's

3-year study shows

HOW MANAGERS ARE MADE

Can experience substitute for training? Why can't you depend on natural selection? Why should managers be generalists rather than specialists? Here are some answers and pointers on executive development

MANAGEMENT development is self-development.

That's the primary finding in the General Electric Company's three-year research study into the factors that make for executive proficiency.

The study also demonstrated that you can't count on a man to get ahead just because he has talent, that experience alone doesn't insure capability on the job, that management is a distinct skill, and that the practice of management is far ahead of its translation into rules and procedures.

General Electric, to meet its own special requirements, used the study to work out perhaps the most elaborate management development project of any in U. S. industry. The company's concern over management development reflects today's upsurge of interest in programs designed:

► To assist the executive to function more effectively in his present position.

► To insure competent replacements for posts vacated by promotion, resignation, discharge, retirement, disability or death and thus strengthen the continuity of an enterprise.

► To correct the narrowness of outlook that derives from overspecialization by cultivating a broader background.

The study and the project provide many pointers for other businesses in the estimate of Harold D. Smiddy, GE vice president for management consultation services, and a distinguished authority on the nature and nurture of the modern executive.

"No company, no industry," says Mr. Smiddy, "can afford to let managers just happen."

General Electric view of management development is about midway between those who see in it a panacea for all problems and those who prefer to drift along on the assumption that, somehow, good men will appear in the right slots, when and if needed, ready to take over at an instant's notice.

GE expects no miracles, but is going about the task of executive development in a realistic, purposeful fashion. The company's attitude is in many respects similar to that behind the excellent programs in this field conducted by enterprises as diverse as Standard Oil (N.J.), United Parcel Service, Detroit Edison, Sears Roebuck, Johnson & Johnson, Metropolitan Life, Monsanto, General Motors and other members of the vanguard in the management development movement. The GE pattern differs from most mainly in scope.

For the purposes of the study, GE's own veterans in organization, employe relations and related areas were backed up by a small corps of outside management consultants, psychologists, professors of business administration. They sifted a vast library of books, monographs, records, pamphlets in English, German, French and the Scandinavian. They also interviewed executive personnel in 50 major firms, together with specialists in the American Management Association, the National Industrial Conference Board, the Society for the Advancement of Management and in universities.

Some 300 GE managers, cooperating with the study task force, discussed and argued such points as whether or not it is possible to inculcate management proficiency in the way that the senior surgeon trains an interne.

Detailed experience records of 2,000 GE executives were combed for clues on the elements which comprise that sixth sense, the intuitive grasp which enables the top-flight manager to weigh the known factors and come up with the correct decisions.

The distillation of these findings ("the yield was relatively low at times for the tonnage of data handled," says Mr. Smiddy) served as the working hypothesis out of which GE has shaped its philosophy and approach for management development, increasingly referred to as "MD."

"First of all," says Mr. Smiddy, "We can't engraft

The idea that good men inevitably rise to the top isn't justified

"You must remember," he declares, "that the whole thing was exploratory. Adult education in and for management is still in its infancy. The discussions highlighted the need to give as much thought, every day, to planning management development as to planning production, or purchasing."

To Herschner Cross, General Manager, Distribution Assemblies Department, a special merit of the seminars was that "we had a relaxed atmosphere for rubbing minds together, and for jogging each other's set views. We got to see more sharply the need for even more integrated effort to achieve team goals—to define each operation more precisely in terms of the way it fits in with others.

"Especially useful," he remarks, "is the emphasis upon human assets—the organization of free human beings, with the skills in their hands and the ideas in their heads, the social capital they represent, as being quite as important as plant, or patents, or other property assets.

"Today's whole trend toward management development shows that the day of the autocratic boss is over. Modern business has no place for him.

"Managers are going to be judged more and more by their ability to develop their people, by relating the individual's capacity to his function while keeping in mind the margin for improvement that everyone has. The same foreman, for example, who can easily supervise 50 women in a winding assembly may be overtaxed when it comes to supervising 12 tool setters. But as often as not he could be trained to handle the more difficult chore."

For Lawrence E. Walkely, General Manager, Trumbull Components Department, the best thing about the seminars was "what came out of the spontaneous give and take in restressing the connection between management development and your charter of business, its distinguishing characteristics, as well as what you have as your objective and the steps for reaching them. We intend, for example, to double our sales in the next ten years. We therefore need to do more to standardize parts. We have to intensify research. We have to get a clearer picture of our end-use customers. We need more projections of building construction—perhaps more warehousing—and a thousand other things to enable us to get a fix on the target and have every section make a detailed breakdown of its contribution.

"Utopia," he declares, "would be when you could just set your sights and have the kind of organization

Modern business no longer has room for the old-time autocratic boss

that could pick up from there. Since it can never quite happen, our basic problem is developing people at every level to match a developing business. Our manning tables, our replacement charts are put together as carefully and revised as often as our re-tooling estimates.

"One good way of readying your human resources is direct personal coaching. We don't select any crown princes here. But, when a man has proven that he can assume a larger responsibility, we put him to a series of step-up tests, where he has to rely more and more on his own judgment.

"He might handle some minor promotion problems, say, or purchase some materials, or contact a wholesaler, or even check back over a recommendation for

Executives must think in broad terms—not of their own interests

a new plant site. We don't look over his shoulder. And if he does well, after a time, he has to take some real risks. So do we.

"You can keep getting your feet wet around the edges of real managing just so long. Then you have to take the plunge."

Central to GE management development is a rigorous performance appraisal system. Every subordinate is regularly assessed by his superior in relation to the current work assignment, the requirements for which are spelled out in a position guide, more specific and detailed than the usual job description. This position guide shows precisely the factors for which the employe is accountable, and to whom, and when. He is then rated on a sliding scale (outstanding, superior, satisfactory, not yet satisfactory, unsatisfactory) for everything from technical proficiency to emotional stability under pressure.

The performance appraisal technique, originally designed to determine salary brackets and compensation, has been extended to detect unsuspected talent and particularly to lay the foundations for a self-development plan worked out jointly between the subordinate and his manager.

The appraisal report of a salesman, for example, may show that he has natural gifts for customer contact and for speaking before small groups, but that he is inadequate in pricing equipment for the more complicated construction project. He and his manager frankly discuss ways to remedy this. It may be a matter of boning up on some manuals, or brushing up on his mathematics by taking a correspondence course.

At the same time, since the purpose of any develop-

four basic criteria for the manager who develops himself in the process of developing others:

1. He should be a balanced "generalist" rather than only a functional "specialist." He should be able to plan, organize, integrate, and to measure as his way of getting results mainly through the work of others, and to do all this in terms of department and company objectives as against any excursions for the sake of his own ego enhancement.

2. He should serve the concept of the best balance of interest among customers, employes, shareowners, vendors, dealers, government and the community.

3. He should lead by persuasion rather than command, by example of integrity and largeness of view, earning the respect of associates by encouraging participation in contrast to the order-flinging martinet who invokes table pounding to mask immaturity, both administrative and emotional.

4. He should recognize human limitations as well as potentialities for growth; that while everyone has an improvement stretch, it remains impossible to turn a mediocrity into a first-rate executive.

Late last year, the pilot sessions in professional business management were begun at the headquarters of GE's Industrial Power Components Division at Plainville, Conn.

Sixteen members of top and middle management attended three-hour sessions one evening a week for five months. Under the guidance of group leaders, they turned their attention to such problems as:

► "In the process of redesigning a new switch, a supplier has been especially helpful and cooperative in working out a part we need. We have been buying that part from him for a year. Everything is satisfactory. But then another supplier offers us the same part at two thirds the price. Does our obligation to the first supplier go beyond placing the facts before him and urging him to lower his costs to meet competition? Or do we have an implied moral commitment to him that should take precedence over the price differential?"

► "The sales of your unit are falling eight per cent below minimum forecasts. In this situation, your first step should be to re-examine (*a*) the composition of your sales force (*b*) what your competitors are offering (*c*) your pricing schedules (*d*) product design (*e*) dealer reactions (*f*) the advertising pitch (*g*) last year's records for the corresponding period."

► "You have a promising junior production engineer, Mr. X, a recent transfer. He is intelligent, enthusiastic, with a high scholastic rating. He has an unusual flair for shaving costs. But he exasperates his associates to such an extent that you suspect that they resist valuable suggestions simply because they come from him. You have twice talked to him about the need for tact and diplomacy; he has failed to reform. You have already in blueprints a new item on which the saving of every fraction of a cent is exceptionally important. You have been counting on X's help. Your comptroller reminds you that your pending request to the finance committee for new equipment funds may be in some degree influenced by the size of your profit margin on this new item. At the same time, the morale of your production unit is at the lowest ebb ever because of X's unpleasant personality. In a particular slump is a veteran of 12 years who knows the practical side of manufacturing like the back of his hand. What do you do?"

► "The head of marketing insists that delivery time on switchboards has to be shortened to please the customers. But the head of manufacturing is equally insistent that his overhead on indirect labor costs and in-process inventory is way out of whack and has to be cut. Can these objectives be paired?"

Such questions are threshed out against the background of GE's philosophy of management development pivotal to GE's test-run seminars at Plainville which elicited reactions typified by the comments of four key participants.

"At first," says Allan A. Watson, manager for Assemblies and Components Sales, "some of us thought the course was going to be stratosphere stuff. Others were afraid of too much inbreeding, a rehash at night of what we'd been dealing with all day. The sessions avoided both excesses pretty well. On some points we're not in agreement with the philosophy, the instructors, or each other. I'm not convinced of just how neatly you can separate policy from operations. Sure, you can do it on a chart. You can have lots of pretty boxes—in color—showing who does what and when. But even a quarterback has to back up his line on defense and make a tackle once in a while, or he isn't running his team right.

The well rounded manager should have the nerve to stick his neck out

"I don't believe," he continues, "in the kind of sales managing that means grabbing your hat and hurrying off to wet-nurse the boys in the field every time one of them falls on his face. But we took up the case of a salesman who calls in and says that he has almost got the order. But he can't clinch it. He has tried everything he knows. Some in the class argued that the way to develop him is to let him fight it out alone—and if he misses, okay. But he's asking for help. And while you don't make the pitch for him, you're supposed to manage from authority of knowledge. That means you should pass along to him everything you can. There has to be a happy medium between acting as teacher for your men and the tendency to leave too much distance, too big a gap, between strategy and tactics in marketing."

William C. Wichman, GE vice president and General Manager of the Industrial Components Division, had this to say:

"Certainly some of us went into these courses with misgivings. There was a show-me attitude. We were as a group, you might say, receptive, but not enthusiastic.

BRITAIN

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vast amounts of profit back into their plants.

The British Board of Trade and Board of Treasury have been choosy, too, about details such as location of new plants. They want to put the plant where it will take up unemployment in economically distressed areas, rather than where transportation and markets might be more convenient to the manufacturer. Standard Oil submitted more than 100 different plans, in seven different locations, before a mutually satisfactory site for the Fawley refinery was chosen.

The Board of Trade and Board of Treasury have been trying to route American subsidiary factories away from the London area, to Scotland or Northern Ireland, or the industrial Midlands around Liverpool. Thus the Hughes Tool Company, makers of oil-drilling equipment, went to Belfast; International Business Machines located its plant in Dundee, Scotland, and the Cabot Carbon (shoe blacking) Company set up its factory near Liverpool.

The Board of Trade strives to equate all factors, it says, with extreme care. Sometimes it does this with exasperating mathematical exactness. The Board told one American firm, listing its assets in an application to set up a British subsidiary, that the amount of capital calculated as good will was too high. The company representatives replied that their firm had reached the figure with great statistical effort, that it was correct.

The Board suggested that the figure be cut by five per cent. The company said it would take its business elsewhere, and made the rounds of Belgium, Holland and Germany as possible places to build its factory. However, it eventually returned to England, and accepted the Board's evaluation.

Once they have set up a plant in England, American businessmen seem to get along pretty well with the authorities. They usually find it wise to put on a British front, to use as many British employes as possible, and to fall in with British customs like morning and afternoon breaks for tea.

The oldest American pharmaceutical house in England, Parke, Davis and Company, is so very British, according to Manager L. O. Smith, that Britishers who visit the mother plant in Detroit often exclaim: "I had no idea that this British firm had such a big subsidiary in America." The emphasis on British appearance, personnel and customs,

ment plan is to build the individual's strengths while strengthening points of weakness, he may be invited to demonstrate at a sales training class various customer approaches he has found valuable. The psychological dividend here would be that he is simultaneously engaged in a plus activity where he has command of the situation, and a minus activity where he still has to acquire that quality. Yet both activities can lead to improvement.

"All appraisal work, when taken seriously, is difficult," observes Stanley Fell, Training and Education specialist at Plainville, "the human ego being what it is. We try to be on our guard against distortions in evaluating what a man does and can do. He may have struck out on something on the very day his boss is spending two hours in rating him. The temptation is to grade him down. But we have to keep reminding ourselves that we must look at his performance, as a

DRAWINGS BY CHARLES DUNN

Managers will be judged more and more on how they develop people

whole, month by month. He may have been batting .300 for the season."

As site for its Management Research and Development Institute GE purchased the 55 acre Crotonville (N. Y.) estate of the late Harry Arthur Hopf, pioneer management consultant, along with his famous collection of management literature. On the campus hill which commands a magnificent view of the surrounding countryside and the Hudson River valley, GE put up two modern functional brick buildings, the one residential, complete with air-conditioned dormitories, lounges, dining hall, and the other educational, with lecture rooms modeled after the surgical theater, class and conference rooms, and offices for the administrative and teaching staff. (The old Hopf home is used as recreation center.)

The Institute's Advanced Management Course is attended by a total of 80 executives for 13 consecutive weeks.

They are recruited from the three levels immediately below that of the President's office: vice presidents, general managers, functional heads of departments, sections and services. (It will take five years to present the course to all GE managers in these classifications.)

The management developings here are guided by Marc A. deSerranti, chief of GE's company-wide manager development consulting service. Also reporting to him are such field consultants as Frank Oglee, who worked as adviser with Messrs. Wichman, Walkely, Cross and their associates in setting up the pioneering seminars at Plainville.

Five classes of 16 men each devote six mornings a week, under the direction of an Institute instructor, to such topics as to whether the Superior Separator Company should have launched its high lift loaders in the corn belt in the way and at the time it did, or whether the merchandise control methods of F. W. Woolworth should be applied to manufacturing stocks, or to other top management problems, either from the casebooks of Harvard's Graduate School of Business Administration, or from GE's experience.

Or they may focus on the pitfalls that will beset a firm that seeks to copy blindly the management development forms and procedures of another despite the fact that management development has to be tailored to a company's individual needs perhaps more meticulously than anything else it does. This has particular relevance for GE managers. Although management development is company-wide, it is no cut and dried doctrine.

It has to be regarded rather as a philosophy, as a source of principles and pointers that can be adapted to the particular requirements of each GE department and plant which differ from each other as widely as a small metal-working establishment differs from a large steel mill.

Afternoons, the members of the separate classes gather in plenary session while one man summarizes for the group the outcome of the morning's parley. Sometimes the meeting is thrown open for general discussion from the floor.

Off to one side of the campus, in the small white house that Dr. Hopf built as his study, is the research operation of the Institute. It is presided over by Mr. Edward D. Kemble, an extremely practical man with theory as preoccupation. His assignment is to look ahead toward 1965 and beyond in shedding light on "the role of the large corporation in a free society" and on similarly momentous issues.

To help him Mr. Kemble has a four-man crew: a sociologist to explore the nature of work and why people do it well or badly; a mathematical scientist to determine the effects on managing of probable rates of changes in technology; an economist to inquire into the large corporation as pacesetter in capital outlays, products, wages; a political scientist to examine it both from the standpoint of its internal administration and its relations with the public, including government, local, state, federal.

The research unit will not have even first tentative results ready for two years or more. But GE believes that research is asking some of the right questions about the proper role of business in fostering an environment where free men can flourish, and not just as managers at GE.—HERBERT HARRIS

REPRINTS AVAILABLE—

"Three-year Study Shows How Managers Are Made" may be obtained in reprint form for ten cents a copy or $7.50 per 100, including postage. Order from Business Manager, Nation's Business, 1615 H Street N.W., Washington 6, D.C.

factory are rising. Vauxhall will more than double its output of cars and trucks when the additions are finished, and the firm will also be making its own bodies.

Unlike Ford, Vauxhall has no plans to penetrate the American market but is out to increase its share in other countries. Besides announcing expansion plans, GM President Harlowe Curtice, when he visited Vauxhall in the fall of 1955, revealed that the company will be coming out this year with a new economy auto to provide competition for the Ford Prefect and Anglia, and the similarly tiny and economical autos put out by others of the "Big Six"—Morris-Austin, Rootes, Standard and Triumph.

Competition among the Big Six is severe, but they have banded together in one respect to meet foreign competition in the international markets. They have set up a testing ground, comparable to that of General Motors in the U. S., to make their cars more fit for the sales race against the autos of other nations, particularly Germany.

British auto manufacturers feel that they have nothing to fear from American competition for the world market because American cars, by British standards, are too big, too thirsty for gasoline, and too complicated. But the German Volkswagen has the British alarmed. Even in the Empire markets, where preferential tariffs protect English cars, the VW has given the British a hard race, and promises to keep on doing it.

In tractors and agricultural machinery, Britain is also concerned about holding her lead. That is one reason the Board of Trade has allowed the English subsidiary of International Harvester to expand production and to start making a new tractor, the B-250, a small machine. Originally, the Board had denied the application for a license to put up a building for the manufacture of a similar machine. Now, it is taking a more lenient view, and the company has bought the factory building of the defunct Jensen auto firm for the new line.

International Harvester has done many good turns for the British foreign trade picture, and for itself, selling to South Africa, India, Sweden, New Zealand, French North Africa, and France. Three American tractor firms, Ford, International Harvester, and the British subsidiary of Allis-Chalmers brought an estimated $170,000,000 in export sales of tractors and farm machinery to the U. K. in 1955, accounting for more than half of the total in those categories.

In other, unrelated fields, Ameri-

Film-a-record Model E Camera with PB Automatic Feeder

Film-a-record Electronic AD Reader

Product pipelines *at Esso's refinery at Fawley, England, largest in Europe, lead to docks. British newspaper wrote: "We don't have to fall flat . . in admiration . . but what Americans did at Fawley we must introduce in British industry."*

BRITAIN *continued*

Mr. Smith says, started back in the 1930's when England made a big fuss over a Buy British campaign. However, although they follow British customs, the American subsidiaries bring American research and manufacturing know-how to bear in matter more important to the British than the following of customs—economic survival in world trade.

Statistics prove the case. The British Ford Company, for instance, exported about 140,000 cars in 1955. This was a quarter of all cars exported from Britain, the largest number exported by any single British auto company. The British Ford Company, in fact, has become the largest exporter of cars in the world.

These figures don't include the Ford tractor business, a sideline which has grown into a major enterprise. Ford makes about a quarter of the tractors exported from Britain, and a high percentage of these are sold in the major hard-currency areas, the U. S. and Canada.

Vauxhall, the GM subsidiary, builds its cars with a strong orientation toward the export market, with heavy-duty running gear and engines, and thus sells a higher percentage of its output abroad than any other auto manufacturer. For 1955, exports were estimated at 53 per cent of production.

International Harvester Company of Great Britain, Ltd., subsidiary of the American firm, also has boosted foreign trade balances by selling tractors and agricultural machinery in the export market. According to Herbert E. Hard, American comptroller-secretary of the firm, 85 to 90 per cent of the output of their principal tractor, the Farm-All M, goes to export.

So British officialdom is encouraging these producers—and others—to expand at a startling rate, especially in the automotive line where international competition is becoming fierce. Britain has led the world in production of cars for export, but as of the end of 1955, the Germans were edging perilously close. The estimate of cars exported from Britain for the year was 400,000; the Germans had exported 383,000.

Capitalistic-minded West Germany had increased her car exports 74 per cent over the 1954 figure. The British increase in that time was only 11 per cent.

So the British banks, and even in some cases, the British townships concerned, have been urged by the government to help the American companies float their expansion plans. The American firms, in turn, relied on accumulated profits to help pay the bill. There's more method than madness in this for the Americans, because a $200,000,000 concern can remit $5,000,000 profits a year without being considered too grasping. The same company, if worth only $100,000,000, might be thought greedy if it sent back $5,000,000.

Ford is starting a bigger expansion plan than any other American subsidiary in Britain. The company is spending the equivalent of $200,000,000 in buildings and machinery to be in operation by the end of 1959. Work is going ahead now at the Dagenham works on a new foundry built from the foundation up for $33,600,000. The first half of this will be finished by January, 1957.

Other phases of the Ford expansion involve new machine tools and assembly lines, new machine shops, administration buildings, new lines of body presses. The production of cars, trucks and tractors will double. It is now 1,500 units a day, about 1,200 cars. The amount of automation will increase sharply.

Much of the present plant dates back to 1931, when the first Henry Ford completed his first building plan. Since then, the Dagenham works has more than doubled in area. It's worth $280,000,000, has its own blast furnace and rolling mill and the largest foundry in Britain.

One of the main objectives of British Ford is to make a dent in the American small-car market. They tried to penetrate in 1952 with their four-cylinder Consul, later with the larger six, the Zephyr. Company heads admit they haven't found the combination yet, but are buzzing with new and secret plans. They have revealed that they have a new car in the works for export, particularly for the American market. It is allegedly low, wide, fast, and easy on gas.

Henry Ford II, in his November, 1955, visit, reportedly promised better retail outlets for the British Fords. He is sympathetic toward Britain's struggle for trade, realizing that, in the words of a Dagenham sales official: "The motor industry in this country is the stalwart of foreign trade. Without it, the country wouldn't be able to get enough raw materials to sustain itself, even in food."

The General Motors subsidiary, Vauxhall, has expansion plans even more ambitious than Ford's. Vauxhall is a smaller company, with production less than half of Ford's, but proportionately it is planning greater expansion. Vauxhall has spent $70,000,000 for industrial growth since 1948, now has earmarked another $85,000,000 for construction and machinery before 1958. Near the plant at Luton, a London suburb, new buildings as big as the existing

to come into Britain since World War II. There, Yankee money and know-how has been a blessing to the English. Even the British press, not noted for being pro-American, gave some grudging recognition of Standard's accomplishment when Fawley was built. The London Daily Mail said: "We don't have to fall flat on our faces in our admiration of U. S. methods . . . but what the Americans did at Fawley we must introduce in British industry."

At Fawley, Americans brought in U. S. labor-saving machinery, a staff of expert American labor managers and engineers, and stepped up the productivity of British labor.

Work on the Fawley refinery started in mid-1949, when big, 34-year-old Bob Cole, the American boss of the building project, turned British labor and American expediters loose in the hilly wood and farmland tract called Cadland Estate, near Southhampton. Two and a half years later, a $130,000,000 refinery, phase one of Esso's building program, was complete—a little ahead of schedule.

Since finishing phase one in the refinery program, Esso has spent another $10,000,000. The Fawley plant is processing 7,500,000 tons, or 45,000,000 barrels of oil a year and is already the sixth largest refinery in the world. Currently, Esso is putting up a $6,000,000 hydrofiner (desulphurizer) and a $10,000,000 hydroformer (to yield higher-test gas).

They are also building gigantic new storage tanks for the fuel oil which Britain has to import because the country still doesn't have enough crude-processing facilities. With British coal production lagging, the Central Electric Authority has turned to fuel oil to run its generators. Esso, Shell and British Petroleum will eventually have more facilities for processing crude.

American know-how and capital are helping the British with other phases of the battle for foreign exchange. Indirectly, many of these subsidiaries of American firms have performed a great service nationally, because they make American products in England (about $1,500,000,000 worth annually) with something like American efficiency. They thus help the British by saving the foreign exchange that English customers would have to use to buy the same merchandise in the U. S.

This is the case with Cabot Carbon Company, one of the most recent big subsidiaries to come into the U. K. The British, it seemed, had no big firms making shoe blacking. So the Board of Trade was delighted to help the Godfrey L. Cabot Co., Inc., of Boston, establish a factory at Ells-

(*Continued on page 102*)

WALTON TREGASKIS

Chemist's shop, *London (i.e., drug store) features popular U. S.-name cosmetics, drugs and other products. Kellogg's plant at Manchester ships eight cereal train loads daily, threatens popularity of porridge*

BRITAIN *continued*

can know-how and management methods have helped in Britain's foreign exchange crisis. One conspicuous example is in the hotel business. Strangely enough, only one new hotel has been built in London since World War II, despite the desperate shortage of tourist accommodations. The new hotel is the Westbury, affiliated with the American Knott chain, and opened in March of 1955. First planned in 1952, it was delayed 18 months by Board of Trade red tape.

The wretched hotel accommodations of London are discouraging tourism, diverting millions of tourist dollars to other countries. The Westbury is a good example of how the system could be brought up to date. But the British, accustomed to their ancient palace-type hotels, are slow to get the message.

The Westbury, which features room service with carts that keep the food warm, night valet service, radio and TV in every room and private bath and shower in every room, offers some evidence that the British may eventually adjust their traditional point of view to fit the export and tourist market. For the Westbury, while it is a Knott hotel, was built with only $1,500,000 of American money. Two thirds of the capital came from the British company Pearl Assurance. Pearl, in fact, is the legal owner, and the Knott firm leases the building.

One line of business in which the British have felt confident they are ahead of the rest of the world is jet engines and jet transports. However, recent developments in the international jet market suggest that even in this field they could take a few lessons—and perhaps some smart capital—from the Americans.

The British still have hopes for great foreign sales of their jet and turboprop air transports and engines; the Viscount, the Vanguard, the Comet IV and the Rolls-Royce Dart turboprop engine. The Comet pure-jet transport got off to a flying start in 1950 and then came a cropper. Now, the DeHavilland Company is flying the Comet III, a revised and enlarged jet which it hopes will be the prototype of a production model, the Comet IV, scheduled to be delivered in 1958. However, the Comet IV will be smaller and slower than our Boeing 707 or the Douglas jet, the DC-8; and won't have enough range for the trans-Atlantic routes.

British aviation authorities contend that most world air routes are shorter than the trans-Atlantic leg, and that, therefore, the smaller, shorter-range and slightly cheaper British aircraft will have a good chance in the foreign market.

The British turboprop transport, the Vickers-Armstrong Viscount, appears to have a jump on the competition, but Vickers-Armstrong suffers from the handicap of other British plane makers—slow factory methods. British assembly lines are held to a turtle-pace by the panel-beaters, highly skilled metal workers who hammer out intricate parts by hand. In the U. S., the same operations are broken into several parts, then done by machines.

Despite hand methods, though, Vickers-Armstrong in five years has delivered 77 of its first production model, the Viscount 700, to airlines all over the world, including the U. S. and Canada.

One American airline, Capital, has ordered 60 Viscounts—and six have been delivered. The Capital order is more than twice as big as any other order on the Viscount schedule, but the others, ranging across the world from the Irish airline, Aer Lingus, to Trans-Australian Airways, add up to an impressive total of 126 still to be filled. The Vickers-Armstrong Company is struggling now to increase output to six planes a month (production is five a month).

The Vickers Company is hoping for similar success with the new Viscount 800 and Vanguard aircraft, and the British Board of Trade is counting on them to bring foreign currency, particularly dollars, to England's foreign exchange tills.

The British are expecting big things in the airplane market from this team of turboprops. The Board of Transport is concentrating attention upon them. British aircraft sales overseas were $156,200,000 in 1954, may exceed $200,000,000 when the 1955 tallies are in—and could conceivably be more important than the auto trade in the future.

But the sudden ordering of fleets of American-made jet and turboprop transports by U. S. airlines at the end of 1955 has taken the wind out of the sails of the British aircraft industry.

Some of the British aviation authorities hope that, if a suitable American turboprop doesn't develop quickly, Lockheed will have to turn to the Rolls-Royce company for its powerplants. The Rolls-Royce Dart has proved durable in operative tests all over the world. The big questions are whether it can be made to develop enough power for the Lockheed Electra, a much larger plane than the Viscount, and whether, if a more powerful model is developed, it can be produced in big enough numbers.

Esso's refinery at Fawley is by far the biggest piece of American capital

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wives at an earlier date. The bill would also help out in the same rather limited way the widow of an insured worker. At present a childless widow gets no social security payments until she reaches 65. A widow with children doesn't get payments from the time her youngest child becomes 18 until she is 65. The bill would lower the age to 62 in each of these cases. Backers of the bill say that women who are thrown on the labor market at an advanced age have an especially hard time finding work and so are especially in need of earlier help from social security.

But here are some of the arguments against lowering the benefit age for women:

1. Insofar as it is designed to induce earlier retirement, it ignores all current population trends. The fact is that people are living longer and that this trend is expected to continue. In 1900, there were 3,080,000 persons 65 and over, about 4.1 per cent of the total population. Now there are more than 14,000,000 of them, and they account for more than 8.5 per cent of the population. By 1975, it is expected, there'll be about 21,000,000 old folks, or almost ten per cent of the expected total population. Moreover, women are living longer than men. The average 40 year old woman can expect to live another 35 years; the average 40 year old man only another 31.

2. A lower retirement age for women would go against all current efforts to encourage old people to keep on working and to persuade employers to hire older persons.

3. It will put pressure on employers to lower the retirement age in private pension plans, and thus would increase pension costs and curtail the adoption or expansion of these private plans. Private industrial plans are generally geared to the social security system, and most now have 65 as the retirement age. The American Association of University Women, which opposes the provision, says that "it must be expected that, if age 62 is established for social security purposes, the same pattern will be adopted by private industry."

4. This will actually hurt women, rather than help them. The retirement age in many private pension plans is compulsory, and thus many women will be forced to retire at the earlier age even if they want to work

BRITAIN *continued*

mere Port, which is near Liverpool.

Another industry which threatened to draw a lot of British dollar reserves into the U. S. was office machinery. The British Board of Trade and Board of Treasury were cordial when some American firms began negotiations to build factories in the post-World War II years. The Boards, with the help of the Scottish Development Council, shoehorned them into the labor-surplus area between Glasgow and Edinburgh. In this zone are IBM, National Cash Register, and Remington-Rand. Besides helping meet domestic demand, the office machinery firms are already bringing about $35,000,000 worth of export income to Britain annually.

One U. S. industry which has puzzled and alarmed the British Trade and Treasury authorities is movies. The British cinema-going public continues to demand American-made pictures even though the English drama critics often give the American products short shrift. The outflow of money to the U. S. from movie showings in Britain would be more than $28,000,000 yearly if unchecked. Actually, under the Thornton Agreement of 1948, only $17,000,000 is remitted to the U. S. So balances accrue, and some of them are used to make movies in Britain. Many of the American movies shot in Britain are made in the famed Ellstree studio of Metro-Goldwyn-Mayer, which is the largest studio in Europe. It was built just before World War II when the government made it into an aircraft factory. It was reconverted in 1946. Most of the pictures produced there in the past year were by other studios, Columbia and Twentieth-Century Fox.

A curious kind of inverted capital flow has originated in the MGM Ellstree studio, too. British firms make films there for exhibition on American TV. On the other hand, a heavier flow of American television films is coming to the U. K.

Among the high-priced films bought for British Broadcasting or commercial TV exhibition are "I Love Lucy," "Burns and Allen," "Amos 'n Andy," and the George Raft detective series. Even in this field, it seems, the British have an unfavorable trade balance. Incidentally, some of the American television set and parts manufacturing companies are negotiating to erect subsidiary plants which will set up a factory to make tubes.

Other firms coming to Britain include a handful of drug companies. Squibb, Upjohn, G. D. Searle, and Lederle are eager to follow up the success which Parke, Davis enjoyed with antibiotics. Some chemical companies interested in the plastics field are coming, too—notably Monsanto, which is going to set up shop near the Fawley refinery of the Esso Corp. So are firms catering to women. International Latex Corporation, United Kingdom Division, will become Playtex Ltd., a foundation garment manufacturer.

Most of the subsidiary firms in Britain, though, were established before World War II, and have grown to great size by plowing back profits. Among them are Gillette, H. J. Heinz, Kellogg's Foods, Jantzen Knitting Mills, Kraft Foods, Coca-Cola, Colgate-Palmolive.

To promote these big industrial names, equally famous advertising and publicity companies have long been active in Britain. The J. Walter Thompson Agency, established here before World War I, has grown into the largest advertising firm in the U. K. Young and Rubicam, Erwin, Wasey and Co., and Foote, Cone and Belding are not far behind in size.

Some of the American products, frequently with adroit boosts from the U. S. agencies, have hit the British consciousness with the impact of H-bombs. One such product was packaged breakfast food, introduced by Kellogg. Before Kellogg, the favorite British breakfast food was porridge. Now a freight-train load of Kellogg's cereals leaves Kellogg's big, almost automatic Manchester plant every three hours, night and day.

A more recent American product is Hi-Fi Fluid make-up which Max Factor first sold to American women last year. In February the company started distributing it—along with other products of Max Factor—through British department stores.

Americans have a great advantage in marketing their products in Britain. It is this: In business and engineering progress, we are at least ten years ahead of Britain.

In general, however, the American firms here haven't abused their advantage, according to Ray Gill, the Secretary of the American Chamber of Commerce. In his 25 years of service in Britain, Mr. Gill says he has found British-American cooperation works smoothly.

"Some of the profits have been fabulous," he says. "Most of the profits are plowed back . . . but generally speaking the American businessmen are suffering no pain at all."

—Richard Tregaskis

amount of protection at the least cost for the greatest number of workers, and should not attempt to provide specialized insurance against all possible risks.

2. Disability benefits could undermine the constantly expanding program to train disabled workers to return to productive jobs. The main emphasis in any program to help the disabled must be on rehabilitation, and many experts feel the availability of benefits will cause many disabled workers to lose interest in trying to get back into productive work.

3. There is no logical basis for setting the eligibility age at 50. Permanent and complete disability is just as much of a hardship for a man of 25 as for one of 50. In fact, it might be argued that the younger man is more likely to have a still-growing family and therefore be in greater need of help. The Democrats who drafted the bill privately admit that the 50 year age was selected only because any lower figure would have required an even greater tax increase than the 25 per cent boost they finally voted.

Since there's no logic to the 50 year figure, there'll be an immediate and steady drive to lower the age limit or do away with it. Nelson J. Cruikshank, director of the AFL-CIO Department of Social Security, has announced that the pending bill is merely "a modest entrance in this important field," and that his organization wants full benefits for all completely disabled workers.

4. The disability scheme could easily lead to demands for federal medical care and provide the entering wedge for full-scale government health programs. The American Medical Association and other groups claim it would require an ever-growing army of doctors on federal payrolls to police disability claims.

5. Many industry actuaries claim lack of experience in this field makes it likely that the cost will be even greater than Mr. Myers is predicting, and he himself admits this could be the case. Rep. Noah Mason of Illinois, one of the Republican opponents of the measure on the Ways and Means Committee, said private insurance companies have always had disastrous experience with disability-income contracts and that "the unfavorable experience of private insurance companies can only be compounded when a disability program is administered by the government." He argued that "government employes, not under the necessity to operate at a profit and overly sympathetic to the public they serve, will find it difficult at times to deny benefits to individuals who may not actually be entitled to them under the law."

6. The fact that state agencies would determine who is eligible for disability benefits is cited as another reason for expecting higher costs than now estimated. By certifying a person for disability benefits under social security, the state could take the man off state relief rolls. Opponents of the disability scheme ask whether some states wouldn't be lax in passing on disability claims when they could thus transfer from state budgets to federal programs the care of many disabled workers.

As in the case of the benefits for older women, some opponents of the disability provision are willing to discuss a limited compromise. There has been talk, for example, of a "premature retirement" provision, which would begin benefit payments to disabled workers at age 60 or 62, on the theory that this merely recognizes the fact that disabled workers lose their earning power and must retire earlier than able-bodied men. But here again, there is the likelihood that this would merely open the way for strong new pressures later for further lowering of the disability qualifying age.

—CHARLES B. SEIB

WHEN IS TOO OLD?

Proposals now before Congress which would lower the age at which persons may begin to receive social security benefits run counter to modern business practice in regard to retirement of workers.

An increasing number of firms are raising, *rather than* lowering, *the age at which employes retire.*

A typical example is the Mutual Benefit Life Insurance Company of Newark, N.J., which announced recently that it was lifting its retirement age from 65 to 68. Advances in medical science have demonstrably lengthened the useful working life of employes, says Mutual Benefit.

In this connection, the Population Reference Bureau, Inc., of Washington, cautions that the rapidly increasing number of persons aged 65 and older will mean a greatly increased welfare load for the federal government in the future years.

The age group 15 to 64 years increased only 3.8 per cent in the past five years while the number of children under 14 rose 19.7 per cent and persons 65 or older increased 14.3 per cent.

SOCIAL SECURITY

continued

longer. Moreover, older women will find it harder to get jobs, since employers won't be able to count on them to continue working as long as at present.

5. The lower age under the social security system will lead to intense pressure for a lower benefit age for women under the old age assistance and other relief programs. This will increase the cost of these other programs to the federal, state and local governments.

6. A lower age for women would run counter to the equal rights principle for which feminists have fought so long. The National Federation of Business and Professional Women's Clubs asserts that a lower retirement age for women under social security "would wipe out many of the gains which employed women have been able to win through the years . . ."

7. Reducing the benefit age for women to 62 would lead to immediate demands for further reductions for both men and women. Already a dozen or more bills are pending to lower the benefit age for women to 60 or even 55. Enactment of a retirement age of 62 for women would also instantly set off demands for a similar reduction for men. The pattern would be set for a gradual stair-like reduction in the retirement age. Under such a progression, costs would mount and the entire system would soon crack.

In citing all these objections, many opponents of the sweeping House-approved proposal concede there may be need for a limited easing of the age limit. Some feel a lower benefit age for childless women who are widowed late in life would be justifiable and not too costly. These are the women, they say, who find it most difficult to obtain employment and who have no children to support them. A benefit age of 60 or 62 for these women would be a tremendous help, without too much drain on the social security system, some experts believe. However, the question immediately arises whether such a reduction would not set the stage for later demands for similar reductions for larger and less needy groups.

The House bill would provide full social security payments at or after the age of 50 for insured workers who have become permanently and totally disabled. To be eligible for these benefits, the worker would have to meet three tests with respect to his previous social security coverage: to have been covered during 18 of the 36 months preceding his disability, during five of the ten years preceding it, and during half the time since 1950 or for 10 years. This complicated set of tests is designed to make sure that the worker had shown an ability and will to work and had in fact worked fairly recently at the time of his disablement.

State agencies—usually a vocational rehabilitation agency—would decide whether the worker was totally and permanently disabled, making their decisions in accord with standards set by Washington. No benefits would be paid until six months after the disability began, and benefits would be suspended if the worker refused to accept rehabilitation. No benefits would be payable for dependents of the disabled worker, and all payments would be reduced by the amount of any other federal disability or workmen's compensation benefits.

Mr. Myers, the Administration's actuary, estimates that, in the first full year of operation, some $200,000,000 of benefits would go to about 250,000 individuals under the disability program. In 25 years, he figures, almost 1,000,000 disabled workers would be drawing about $900,000,000 a year. He stresses that these estimates are based on an assumption of high employment and strict administration of the disability tests, and that the costs would be much higher if these assumptions prove wrong.

The main argument for this new scheme is that the failure to take care of the completely disabled worker is a major gap in the present social security system. A disabled worker, the argument goes, is a person who has had to retire from the labor force at an earlier age than other workers, and the social security system should recognize this. It is also argued that the disabled worker should not be shamed by being forced onto relief but should rather be taken care of through the system he helped support while he was working.

On the other hand, these arguments are made against the change:

1. The disability scheme brings a whole new area of benefits into the social security pattern. Twenty years ago, the system was set up as a pure and simple method of insuring a worker against a complete loss of income on retirement. The system was drastically expanded once, in 1939, to provide coverage for survivors and dependents. But the system has never before been considered part of a sickness or accident benefit scheme. Social security should be confined to providing a minimum

the union agreed to the principle of making up the cost through higher productivity—a point some others who made similar contracts overlooked.

The automobile contracts run until June, 1958, and provide for increases of six cents an hour this June and in June, 1957, with quarterly adjustments for changes in the cost-of-living index.

General Electric signed its first long-term contract with a built-in type increase and living-cost escalator last fall. It runs until September, 1960, and provides for a three per cent increase, with a minimum of four and a half cents an hour, in September of 1955, 1956 and 1957.

A state which dwarfs its men, in order that they be more docile instruments in its hands even for beneficial purposes, will find that with small men no great thing can really be accomplished.

—John Stuart Mill

In each of the next two years, the increase will be about three and a half per cent, with a minimum of five cents an hour.

With an average hourly rate of close to $2, the increases will average approximately six or seven cents an hour.

Like the automobile contracts, major wage agreements with the Teamsters' Union in the trucking industry, covering more than 280,000 employes, run for three years.

Those for over-the-road drivers in 25 central, southeast and southwest states provided for ten cents an hour when negotiated a year ago, eight cents more last month, and another eight cents next February, when the rate will be $2.23 in all the states.

The same ten-eight-eight increases, payable in June 1955, 1956 and 1957, are provided for in the Teamster contracts covering western Pennsylvania (except Pittsburgh), New York State (except New York City), and four of the New England states.

Sixty Teamster agreements in 11 western states provide midyear increases during 1955-57 of eight, eight, and seven cents for over-the-road drivers, and generally ten, ten, and nine cents for local drivers.

Long-term contracts not only permit both workers and employers to plan for the future on a definite basis, but also "relieve the employer of the constant fear of work stoppages," according to Frank O. Blunden, vice president of Kramer Bros. Freight Lines, Inc., Detroit. Mr. Blunden was chairman of the employers' committee which negotiated the central states agreement.

"It becomes possible, therefore," he explains, "for the employer to work out a definite future plan which will enable him to reduce his costs to a point necessary to meet a wage increase which is impending upon a given date in the future; or, if he is unable to reduce his costs, it gives him an opportunity to seek a price adjustment consistent with his competitive situation.

"One of the greatest deterrents to sound management is the fear that the plans that may be made for the future may be disrupted by unreasonable demands by labor or by unanticipated work stoppages.

"The worker likewise has a fear of a work stoppage which will cut off his income, and this feeling of uncertainty does not contribute to his satisfactory production. Long-term contracts have a tendency to eliminate these fears."

Industrial stability and employe security under long-term contracts are cited by James R. Hoffa, chairman of the Central States Conference of Teamsters.

"The long-term contract tends to eliminate the piecemeal and sometimes irrational approach to modern collective bargaining," he says. "Such contracts, if comprehensive in their nature, contribute to industrial stability and maximum employe security without sacrificing the historical rights of either side.

"The consuming public gains by continuous uninterrupted service.

"Our long-term contracts covering all interstate trucking and local cartage firms in 13 midwestern states, and two additional long-term contracts involving the automobile transport industry (haul-away and truck-away) in 23 states, are a shot in the arm for this section of our free-enterprising economy.

"In this connection, the long-term, comprehensive contract encourages initiative and ingenuity among employers as a solid basis for business success rather than dependence upon low wages and poor conditions of employment."

Employes of Pittsburgh Plate Glass and Libbey-Owens-Ford got an eight-cent increase last year and will get five cents more this year and next year under a three-year agreement.

A CIO agreement last year covering atomic workers at Oak Ridge, Tenn., and Paducah, Ky., provided for boosts of ten cents last year and seven cents this year and next. END

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WAGE BOOSTS

continued from page 39

negotiations for southern coal companies as president of the Southern Coal Producers' Association, believes that the long-term wage contract is a symptom of maturity in the union-management relationship and confidence in a company's ability to meet the increases committed.

He believes increased education, a broader understanding of wages and a growing shift from proprietorship to professional management of business may be factors in the trend toward predetermining wage increases over a period of years.

The coal industry does not ordinarily negotiate the built-in type wage increases, but last fall it agreed to a 15-cent increase beginning last September and another ten cents effective in April. There had been no increase for several years because of economic conditions in the industry.

John S. Bugas, vice president-industrial relations of Ford, says:

"Deferred wage increases are an integral part of extending the period of contract stability. Reasonably arrived at, they involve no greater risks than does the certainty of yearly wage arguments under the threat of economic force.

"Less frequent negotiations mean more security for employers, employes and the public against the disruptions of economic losses caused by strikes. This increased stability permits more management concentration on meeting the expanding needs of our competitive economy; it enables management to plan for the future with greater confidence. This works to the mutual benefit of all elements in our society.

"None of these advantages can accrue, of course, unless both parties respect and observe their obligations."

Defense Secretary Charles E. Wilson, then president of General Motors, introduced the long-term contract in the automobile industry in 1948 as "a stabilizing influence not only on our business but on the economy of the whole country."

The first agreement was for two years, with an annual increase of three cents an hour "to increase the standard of living of workmen" and a then-novel cost-of-living escalator for "protecting the worker from increases in consumer prices."

The annual improvement increase is intended to reflect increased productivity and has risen from three to four, five and now six cents an hour. It roughly equals the average increase in national productivity of two to three per cent a year over the past 40 years or so. If GM had adopted in 1940 the formula it put into effect in 1948, its wages in June, 1951, would have been within one cent of what they actually were.

In return for the annual increase,

THIS YEAR'S *automatic pay raises*

Built-in wage increases in existing labor contracts covering at least 2,750,000 employes will give:

These hourly increases	***To this many employes***	***In these industries***
10 cents	200,000	Soft coal
8 cents	350,000	Trucking, local transit and other transportation
7 cents	4,500	Atomic energy
6 cents	1,500,000	Automobile, farm equipment, electrical machinery and other metalworking
5 cents	23,000	Flat glass
Varying amounts	672,500	Construction and miscellaneous

go up to 131,000,000,000 gallons daily by 1975, a rise of 119 per cent.

Soviets chart huge steel boost—

The Soviet Union plans to increase its steel production two and a half times faster than this country's expected rate of increase in the next five years.

This target is a key feature of Russia's long-range objective of overtaking free world production.

In a recent announcement the Reds said they plan to boost their steel output from 49,500,000 short tons (in 1955) to more than 75,000,000 tons by 1960.

U. S. production, 117,000,000 short tons for the past year, is currently going at a rate close to the 128,000,000 ton capacity of the industry. Capacity is expected to rise about 5,000,000 tons a year for at least three years—a little less than a four per cent annual increase.

The USSR's capacity, if announced plans materialize, will also rise about 5,000,000 tons a year—which is equal to ten per cent per year for the Russian steelmakers.

—and call for more automation

To insure success in their drive to meet higher production quotas in steel and other basic industries, Russia's industrial bosses are placing increasing emphasis on the use of automatized procedures in plants and shops.

The Red officials see automation as a tool for boosting the lagging productivity of Soviet workers and as a vehicle for offsetting the excessive accumulation of outmoded machinery in state-owned plants.

Still another reason for automation's growing popularity in Soviet industry is the USSR's undersupply of certain types of semiskilled workers—this in contrast to the much-heralded Kremlin drive to train large numbers of engineers, scientists and technicians. More reliance on automatic production methods is viewed as at least a partial solution for this inadequacy.

American students of Soviet industry note that automation is now a compulsory course in the final year of training in Soviet mechanical engineering schools. And three U. S. automation engineers, recently returned from a tour of ten Soviet plants, report having seen significant evidence of automation, and some disturbing signs of new Soviet industrial proficiency.

Air coolers tool up for bigger '56 sales

- **How U. S. capitalism is different**
- **Water needs will rise 75 per cent by '75**
- **Reds stress automation in catch-up plan**

The year just ahead will be bigger for air conditioning than the whopping one just past.

That's the prediction of the Air Conditioning and Refrigeration Institute, which adds:

"However, at the year's end the United States will have more homes without air conditioning than it has now."

The industry expects to put between 700,000 and 800,000 units into homes for the first time. But the U. S. is building (predicted 1,200,000 new homes in 1956) faster than the air-conditioning industry can produce, sell and install.

Thus, looking to the future, the industry visualizes ever brighter prospects for sales.

The Institute's outlook for '56 includes:

- 1,500,000 room unit sales, up 15 per cent over 1955.
- 125,000 residential central units, up 20 to 25 per cent.
- 110,000 commercial units (store size), up ten per cent.
- Central station units (department store, hotel size), up ten to 15 per cent. Size and cost of these vary widely.

Some industry estimates range higher.

Over-all, retail sales are expected to reach about $3,200,000,000, compared to $2,900,000,000 last year.

What U. S. capitalist believes

Is U. S. capitalism like capitalism in other free countries? No.

The reasons are spelled out by General Electric board chairman Philip D. Reed, who notes the distinguishing features.

Mr. Reed says U. S. businessmen believe in:

1. Large volume, small margins.

2. High wages, high productivity, high purchasing power.

3. Scrapping obsolete equipment, regardless of remaining useful life.

4. Installment sales technique.

5. Short, highly productive work week, more leisure time for workers.

6. Competition vs. cartel.

Outlook for water requirements

Use of water in the United States will increase almost 75 per cent by 1975. Growing requirements for industrial purposes and for the generation of electricity by steam will contribute most to the over-all increase.

These are findings of the Water and Sewerage Industry and Utilities Division of the U. S. Department of Commerce.

Two of the reasons cited for the projected rise in water requirements are: 37,400,000 acres will be irrigated in 1975, compared to 29,500,000 now; 148,800,000 persons will be served by public water supplies, compared to 111,000,000 now.

Looking to the future, the division's study reveals that average daily consumption of water—now 262,040,000,000 gallons—will rise to 453,080,000,000 by 1975.

Major categories of expanding water uses are:

Irrigation — Daily requirements will rise to 169,780,000,000 gallons by 1975, a 42 per cent increase.

Rural—Daily average of water used by farms, rural homes, suburban fringe homes will rise to 7,200,000,000 gallons, 33 per cent increase.

Public water supplies—Daily average will go up to 29,800,000,000 gallons, 75 per cent rise.

Industrial and miscellaneous—Daily average will rise to 115,400,000,000, an increase of 92 per cent. This includes manufacturing and mineral industries, air conditioning, resorts, motels, rural, commercial, military, and other self-supplied uses.

Steam electric power—This will

ADVERTISERS IN THIS ISSUE • March 1956

PERFECTIONISTS CAN KILL BUSINESS GROWTH

IN "THE BIRTHMARK," Nathaniel Hawthorne tells of a woman whose beauty was flawless except for a small birthmark on her cheek which her friends regarded as attractive. Her husband, seeking absolute perfection, insisted on an operation to remove it. The woman died.

The American economy is today a thing of surpassing beauty. No other economy anywhere ever has equaled it. But, like Hawthorne's heroine, it is not perfect.

One of its blemishes, as described in the President's Economic Report, is that the durable consumer goods industries have a marked tendency to fluctuate.

Like the husband in Hawthorne's story, the Administration now presumably intends to seek absolute perfection. It has asked Congress to restore the government's power to regulate the terms of consumer installment credit. The intention is not to use these restraints now but to have them available as stand-by measures.

Precisely what amount of fluctuation would cause the government to put them into effect is not clear, nor is the form that the regulations would take. The most general opinion, however, is that they would follow closely the formula of Regulation W which, between 1941 and 1946 and again during the Korean war, permitted the Federal Reserve Board to fix the amount of down payment and the length of the payment period for consumer goods bought on credit.

Regulation W was adopted to meet market and production conditions brought on by war and recovery from war. Money was plentiful and goods were abnormally scarce. Controls on the use of individual credit were justified—at least in some opinions—as ways to prevent inflation, preserve scarce materials, and insure a more equitable distribution of available merchandise.

Goods are not scarce today. Ask your auto dealer about that. National productivity is at its all time high with predictions that it will go higher as companies in all lines of business announce expansion programs. National income is up, too, as are most of the customary measures of national prosperity.

This expansion of the economy came about, the government says, because private citizens freely applied their energies and resources to bettering themselves, their families and their communities.

The government boasts that its role was merely to give encouragement, confidence and wider freedom to private initiative. Among the freedoms thus encouraged was the customer's freedom to buy what he wanted at such terms as the seller was willing to give him. This freedom, apparently, the government now wishes to curb by setting the terms at which credit sales can be made. By manipulating the terms it could, if it wanted to, prevent fluctuations by making it difficult to buy certain goods and easy to buy others.

This is only a small tampering with the free market place that gave us the level of business that we enjoy today.

But the birthmark in Hawthorne's story was tiny and its removal promised to be a minor operation.

Still the lady died. Perfection is not natural in nature—nor in a growing economy.

NATION'S BUSINESS • MARCH 1956

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